1983 ANNUAL REPORT

THE NEW AT&T

AT&T

American Telephone and Telegraph Company

1984 Annual Meeting

The 99th Annual Meeting of AT&T shareowners—the first of the *new* AT&T—will be held at 9:30 a.m. on Wednesday, April 18, 1984, at the Milwaukee Exposition and Convention Center and Arena in Milwaukee, Wisconsin.

Stock and Bond Information

Information about AT&T common and preferred stock, bonds, dividends or interest payments and about the Dividend Reinvestment and Stock Purchase Plan can be obtained from the company's transfer agent, American Transtech Inc., by calling without charge 800 631-3311. Mailed inquiries should be addressed to American Transtech Inc., AT&T Shareowner Contact, P.O. Box 2566, Jacksonville, FL 32232.

Certificates and documents in support of stock transfers should be addressed to American Transtech Inc., AT&T Transfer Services, P.O. Box 2420, Jacksonville, FL 32232.

American Transtech maintains an office for bank and broker services at 250 Broadway, 15th Floor, New York, NY 10007.

Shareowner Information

Available upon request, by writing the Assistant Secretary, AT&T Co., Room 3204, 550 Madison Avenue, New York, NY 10022, are:

- Form 10-K, AT&T's annual report to the Securities and Exchange Commission.
- Information on charitable contributions.

As a service to visually impaired shareowners, the AT&T annual report will be available on audio cassettes.

General questions or comments about the company should be directed to: Corporate Vice President and Secretary, AT&T Co., Room 3309, 550 Madison Avenue, New York, NY 10022.

The company's telephone number is 212 605-5500.

AT&T

The American Telephone and Telegraph Company (AT&T) was incorporated in 1885 as a subsidiary of The American Bell Telephone Company. It was commonly referred to as the Long Distance Company until 1899, when it became the parent company of the then evolving Bell System.

Effective January 1, 1984, AT&T divested itself of the local operations of its 22 wholly owned local telephone operating companies.

As explained in detail in this annual report, AT&T continues to own research, development and manufacturing facilities, to provide long distance telecommunications services, and to market a broad range of telecommunications and information equipment, products and systems in the United States and abroad.

American Transtech

AT&T shareowner transactions formerly were handled by the Stock and Bond Division of AT&T's Treasury Department. But because of the formation of the seven regional holding companies and the prospect that our 3 million shareowner accounts would expand to more than 20 million accounts, we formed a new subsidiary in 1983 to provide shareowner services.

It is called American Transtech Inc. and it has its headquarters in Jacksonville, Florida.

American Transtech will continue to provide services to AT&T shareowners as in the past, and it will provide the same services to the shareowners of the seven new regional holding companies.

Mailing addresses and telephone numbers for these services are listed above under "Stock and Bond Information."

1983 ANNUAL REPORT

AT&T

CONTENTS

About the Cover

AT&T's new corporate symbol is a globe girdled by lines, signifying the company's mission of meeting customer needs, worldwide, for the electronic movement and management of information. The company's former symbol, the bell, continues to be used by the divested telephone companies.

REPORT OF THE CHAIRMAN

This new AT&T is in the business of meeting customer needs, worldwide, for the electronic movement and management of information.

Dear AT&T Shareowner:

In 1983 we closed the book–and the books–on the Bell System.

The year's financial results, the last for the consolidated Bell System, are unusual in that they reflect one-time, one-of-a-kind events connected with reorganization as well as accounting changes to position AT&T to compete effectively after divestiture.

Income from operations for 1983 amounted to $5.75 billion, compared with $6.99 billion in 1982. Earnings per share on 937 million average shares outstanding were $6.00, compared with $8.06 per share on 850 million average shares the previous year.

A year-end extraordinary charge to account for a writedown of AT&T's post-divestiture assets and changes in accounting policies and practices reduced 1983 earnings by $5.5 billion, or $5.87 per share.

Including the effect of these charges, 1983 net income was $249 million, or $.13 per share.

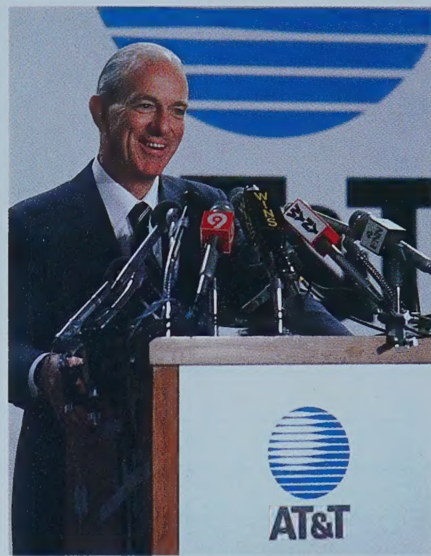
These results are no more an accurate measure of the year's operations than they are predictive of the future earnings performance of either AT&T or of the divested companies. Both we and they, as I have said so often, have embarked on a future that is bright with opportunities.

(For detailed financial and operating results, including Results in Brief, see the Financial Review Section.)

The New AT&T

We and the divested companies are now separate and independent of one another, although we undoubtedly will be major customers for each other's services in the months and years ahead.

In any event, no longer does AT&T management speak for the divested companies. Their managements speak for themselves. In the main, therefore, this annual report will concern itself with the *new* AT&T.



AT&T Chairman C. L. Brown, presiding over one of the many press conferences held by the company in 1983.

To characterize a company as being *new* when its corporate roots can be traced back to the invention of the telephone may seem curious. But in many important respects this is indeed a *new* AT&T.

Obviously the company has fewer assets, employs fewer people, and is no longer engaged in the business of providing local exchange service.

Equally clear, however, is that after so many years of being severely restricted in the business opportunities we could pursue and in the technologies we could employ, AT&T can now test its managerial, technological and marketing resources in new and challenging ways.

Moreover, having been limited in what we could earn in every part of the business, we can now vigorously endeavor to maximize the long term value of our shareowners' investment.

...in everything we do we intend to be the best.

Defining Our Business

This new AT&T is in the business of meeting customer needs, worldwide, for the electronic movement and management of information.

We will provide modern, nationwide telecommunications facilities, offering a

range of services unmatched by other long distance carriers.

We will develop and manufacture equipment and systems for our own and other networks, domestically and internationally.

We will design, produce and market communications and information products, systems and services for customers whose requirements are large and complex as well as for those whose needs are relatively few and simple.

We will design and produce electronic components, computers and software systems for use within our own organization and outside it.

We do not take a narrow view of the opportunities open to us–or of the market we are in. We see that market as a global one, and we will approach the various aspects of our business–research and development, manufacturing, marketing, distribution and service–from that global perspective.

We will not try to be all things to all people, but in everything we do we intend to be the best.

Customer Satisfaction

Our overarching goal will be customer satisfaction. All that we do will have meaning and purpose only as it serves that goal. And, by continuously striving to achieve customer satisfaction, we will ensure not only that we enhance the value of our shareowners' investment but that we retain the valued attributes that have distinguished our past.

From our past we bring with us impressive strengths: highly skilled and experienced people; an acknowledged proficiency in science, technology and engineering; a deserved reputation for service excellence; an emerging professionalism in marketing; and our experience in organizing resources and managing operations and systems on a very large scale.

We bring with us, as well, a sense of responsibility to conform our policies to what we believe to be the public interest.

And, finally, we bring with us fond memories of the many people whose dedication to service quality made this company so successful in the past and whose untiring efforts went into restructuring it for the future.

* * *

At midnight on December 31, 1983, the Bell System passed into history, bringing to a close a unique and memorable chapter in the chronicle of American business enterprise.

Long bound together by a common commitment to make telephone service available to everyone in the country at an affordable price, AT&T and its associated companies–that is, the Bell System–gave the United States the biggest and best communications system in the world.

Let it be noted, then, that Bell System people did what was asked of them. They provided excellent telephone service at low cost. And in doing so, they honored what in 1927 a former AT&T president described as the company's "unusual obligation to the public to see to it that the service shall at all times be adequate, dependable and satisfactory to the user."

The record of the Bell System was one of promises kept, and we are proud of that record. The future of the Bell System's separate parts is promising. But we can only regret that an unyielding combination of technological, regulatory, legal and political pressures brought to an end what very well may have been the most successful large scale business organization in history.

It has been said that the character of a business, in greater or lesser measure, is a composite of the character of all the people who work in it–*or ever did*. In that sense, then, the *spirit* of the Bell System will live on in the new AT&T and in the now-divested Bell companies.

C. L. Brown
January 31, 1984

By continuously striving to achieve customer satisfaction, we will ensure not only that we enhance the value of our shareowners' investment but that we retain the valued attributes that have distinguished our past.

1983: AN EPILOGUE

Nineteen eighty-three was a year in which we took apart the world's largest business enterprise and reshaped it into separate and independent organizations. When the year was done, there was a new, more compact AT&T.

Nineteen eighty-three was a year in which we took apart the world's largest business enterprise and reshaped it into separate and independent organizations.

When the year was done, there was a new, more compact AT&T. There were seven new regional holding companies, into which were grouped the 22 local Bell operating companies. And there was a new service organization to provide centralized technical support to the regional companies.

The mammoth task of restructuring the Bell System was triggered by the announcement on January 8, 1982, that we had agreed to divest ourselves of our local telephone operations. The agreement with the United States Department of Justice took the form of a modification of a 1956 consent decree. That decree had limited AT&T to the regulated telecommunications business.

As approved by the court in August, 1982, the new decree prescribed the following businesses for the 22 divested companies: (1) local exchange service within defined geographic areas; (2) access services linking customers with long distance carriers; (3) printed directory advertising (the Yellow Pages); and (4) cellular mobile communications services. The divested companies also can market customer premises equipment and—with court approval—enter other businesses.

AT&T retained the long distance part of the business; its research, development and manufacturing operations; and other parts of the business not assigned to the divested companies. In general, the modified consent decree leaves the new AT&T free to pursue whatever business opportunities it chooses to pursue.

Approximately 77 percent, or $115.5 billion, of AT&T's total assets of $149.5 billion was assigned at year-end to the divested companies.

Court approval of a detailed plan to carry out the divestiture came in August, 1983, after final court-proposed modifications were made. One of those modifications assigned almost exclusive domestic use of the name "Bell" to the divested companies.

Regional Companies

Efforts to establish the regional companies were already well under way by that time. The names and headquarters cities of the regional companies are: American Information Technologies Corporation (Ameritech), Chicago; Bell Atlantic Corporation, Philadelphia; BellSouth Corporation, Atlanta; NYNEX Corporation, New York City; Pacific Telesis Group, San Francisco; Southwestern Bell Corporation, St. Louis; and U S WEST, Inc., Denver.

In November, the stock of the regional companies started trading on a "when-issued" basis, and AT&T began trading with a dual listing.

Then, in late November, we began mailing to shareowners an Information Statement and Prospectus containing extensive data related to the divestiture.

In January, statements of account, with a breakdown of each shareowner's holdings, were mailed. Shareowners with at least 10 but fewer than 500 shares of AT&T were also sent cards with which to exercise the consolidation option included in the company's plan for distributing regional company shares. The deadline for returning the cards is April 16, 1984.

Mailing of new regional company stock certificates was scheduled to begin in mid-February. (The "old" AT&T certificates remain in use and, therefore, should not be discarded.)

Other Developments

Some other important developments in 1983 and early 1984 were these:

• As discussed in more detail later, we formed AT&T Technologies, Inc., which on January 1, 1984, assumed the corporate charter of the Western Electric Co.

• We announced plans to phase out three Western Electric plants—Kearny,

Hawthorne and Indianapolis—and to consolidate distribution and repair facilities.

• AT&T Information Systems, set up as a separate subsidiary initially called American Bell, began marketing business systems, enhanced services and consumer products on a deregulated basis.

• We established a joint venture company with N. V. Philips of the Netherlands, the large European electronics concern. And we agreed in principle to form an industrial, commercial and financial alliance with Olivetti, Europe's leading office automation company.

• A 21-day strike against the Bell System, the first since 1971, was brought to an end by agreements on a three-year contract that included new training and retraining opportunities for employees.

• Effective January 1, 1984, the FCC deregulated telephones and other previously installed equipment leased by customers, and authorized the transfer of this equipment from the Bell telephone companies to AT&T Information Systems.

• The United States Supreme Court declined to review the company's appeal of a $277 million damage award to Litton Industries Inc. in an antitrust suit filed against the Bell System in 1976.

Access Charges

• In accord with an FCC order, the Bell companies filed access charge tariffs meant to gradually reduce, but not eliminate, the use of long distance revenues to subsidize local telephone service. These tariffs, with monthly flat-rate charges for residence and business customers, were to go into effect on January 1, 1984.

However, the Commission has delayed the start of these charges for residential and single-line business customers until 1985. The Commission also put off equalizing the fees paid by AT&T and other long distance carriers for local connections. As of April 3, 1984, competing carriers will pay 55 percent less than what AT&T pays for access to local company lines.

When the delay was announced, AT&T said the FCC's action could prevent the company from going ahead with its plans to reduce rates for AT&T Long Distance Service by an average of 10.5 percent.

• The House of Representatives passed a bill in 1983 prohibiting customer access charges entirely. But in January, 1984, after the FCC postponed implementing its access charge plan, the Senate voted to table a related bill, making it unlikely that there would be any major telecommunications legislation in this session of Congress.

AT&T, with broad support from shareowners, employees and others, had said such legislation would encourage large businesses to bypass the regular telephone networks. Both AT&T and the FCC vigorously contested the notion that the use of access charges would cause people to give up telephone service.

* * *

Finally, we recognize that changes in the way telephone service is provided and priced—changes brought about in part by new regulatory rules, in part by other factors—have created some confusion and concern among customers. We regret that, and we are working hard to minimize inconveniences during this time of transition.

...we are working hard to minimize inconveniences during this time of transition.

We will continue to be known for the quality and reliability of the products and services we offer.

What could be "new" about a company that was incorporated 99 years ago?

Before, AT&T owned nearly two dozen "local" companies, all of them in the same business. AT&T now owns a small number of related businesses that serve a marketplace that is worldwide.

Before, AT&T was the world's largest company. At the start of 1984, our assets totalled over $34 billion and our employees numbered 373,000–still a very large company, of course, but much smaller than in the past.

Before, almost everything we did–the services we offered, the prices we charged, the profit we earned–was regulated by government. Today, only our long distance services–which are subject to strong, growing competition and which will account for over half our revenues–still come under traditional regulation.

Before, a large part of our business, local exchange services, was relatively competition-free. Now, no part is.

Before, we were confined to the common carrier business. Today, we can pursue opportunities in whatever markets look promising to us.

In making the transformation from a regulated monopoly to a fully competitive business, there can be little room for traditional thinking. But, at the same time, we do not intend to abandon traditions that are important to us.

We will continue affirmative action and similar programs. We will contribute financially to worthy causes, primarily through the AT&T Foundation that we set up in 1983. And we will continue to be a good company to work for.

Corporate Commitments

AT&T makes these commitments:

- We will continue to be known for the quality and reliability of the products and services we offer.
- Based on our performance and prices, we will seek to retain our current customers, especially the divested Bell operating companies. But we also will be aggressive in seeking new customers and new markets, both in the United States and internationally.
- In selecting markets to enter, we will focus on those opportunities that will serve the interests of the business as a whole.
- New products and services that we introduce will reflect the technological strength we derive from AT&T Bell Laboratories and the stringent efforts of all our managers to be the low-cost supplier in the markets we serve.
- When and where it is advantageous for us to do so, we will enter into joint ventures, continue to develop new distribution channels and, in general, demonstrate a readiness to adopt new, innovative ways of doing business.

Financial Objectives

As reported in the Information Statement and Prospectus that was sent to all shareowners, we have forecasted AT&T's 1984 operating revenues to be $56.5 billion; operating expenses, $51.6 billion; net income, $2.1 billion; and earnings per share, $2.02.

We have also said we intend to pay a quarterly dividend of $.30 per common share, payable May 1, 1984.

These and other financial data, including the assumptions on which our forecasts were based, are repeated in the Financial Review Section of this annual report.

Overall, we expect 1984 to be a year for consolidating our operations–a year

AT&T's new corporate headquarters is at 550 Madison Avenue in midtown Manhattan. The pink granite, post-modern structure, with its distinctive open pediment top, was designed by architect Philip Johnson.

We want to provide shareowners with growth in the value of their investment...

upon which to build and improve.

Looking ahead, we will strive for strong growth in revenues, profit margins and earnings.

We want to provide shareowners with growth in the value of their investment, as represented by a combination of dividends and market value appreciation.

We seek a return to equity that will be considerably higher than the 12 to 13 percent range earned by the Bell System over the last several years. In the long distance part of our business, our goal is to earn the 17.5 percent equity return approved by the FCC for our interstate operations. In the unregulated sector of our business, our goal is a still higher return that is as good as or better than that earned by other well-positioned, high technology companies.

We look to improve our cash flow, and to rely less on external financing.

We expect, over a period of time, to bring down our debt ratio (the proportion of capital represented by debt) to a range of 25 to 30 percent from the January 1, 1984, level of 42.4 percent.

And we will endeavor to recover our capital investment in products and equipment more quickly than in the past.

All of these objectives will not be achieved in our first year, or perhaps even in our first several years. But the business decisions we are making now are geared toward the achievement of these objectives.

A New Structure

We entered 1984 with a new form of organization, built around the lines of business in which we are engaged. The move to a line of business organization–with each line of business responsible for its own profitability and its contribution to AT&T's revenues–is more than a modification of our structure. It represents, for us, a major change in organizational philosophy.

Responsibility for the overall management of resources to support our lines of business comes under two sectors.

One is AT&T Communications, which provides long distance services throughout the United States and to most of the rest of the world. The other is AT&T Technologies, encompassing the largely unregulated parts of our business.

Within AT&T Technologies are business groups producing network systems, components and electronic systems, computers, business information systems, consumer products for homes and businesses, and systems for the Federal government.

Our worldwide business interests are managed by AT&T International.

Bell Laboratories technology will serve both sectors.

Setting overall corporate strategy and policy for the business will be AT&T Corporate Headquarters. It will be the responsibility of the headquarters organization to ensure that this new AT&T is at all times managed as *one* business.

AT&T, with more than $34 billion in assets and some 373,000 employees at the start of 1984, remains one of the nation's largest corporations. In addition to the presence in more than 600 locations of employees engaged in long distance network operations, the company has offices and facilities throughout the United States and is represented in a number of foreign countries.

★ AT&T Corporate Headquarters
✱ American Transtech
● AT&T Communications marketing locations
■ AT&T Information Systems marketing sales locations
✖ AT&T Technologies production facilities
▲ AT&T Bell Laboratories research facilities
✚ AT&T International sales offices, distributorships, joint ventures

AT&T COMMUNICATIONS

Long distance service is a growing and an increasingly competitive business.... We bring to this competition strengths that we are confident will assure continued growth in this market.

Before the breakup of the Bell System, AT&T provided high quality long distance services to all corners of the nation and the world. It still does.

About 60 percent of the new AT&T's revenues is expected to come from meeting the domestic and international communications needs of businesses and homes across the country.

This is the business of AT&T Communications: providing inter- and intrastate long distance services between telephone company boundaries called local access and transport areas (LATAs), as well as service to some 200 countries and territories around the globe.

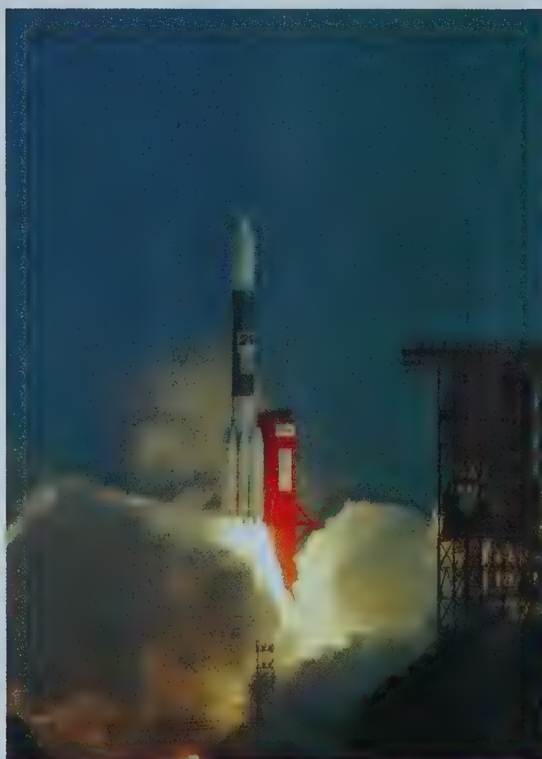
AT&T Communications' customers include tens of millions of residences and businesses in both Bell and other telephone company territories.

Competitive Strengths

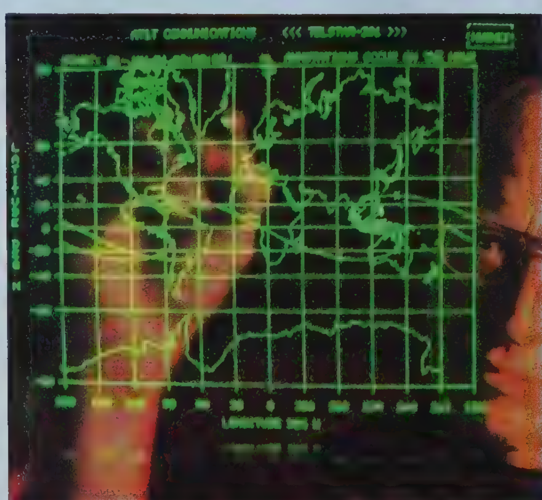
Long distance service is a growing and an increasingly competitive business. At the moment, our principal competitors in the long distance market include other carriers that have built their own networks between major cities, and companies that lease lines from AT&T and others and resell them.

We bring to this competition strengths that we are confident will assure continued growth in this market.

In particular, ours is a nationwide telecommunications and information network that is unmatched in the reliability of service it affords; the volume of messages it can handle; the variety of services it can provide; the places it can reach; and the



Telstar 3, the first in a series of new high-capacity AT&T communications satellites, was launched into space atop a Delta rocket in July. Communications Technician George Cunningham, below, tracks the position of the new satellite as it goes into orbit.



AT&T's long distance network, almost entirely computer-controlled and 80 percent of it digitally-switched, covers the spectrum of transmission technologies: lightwave, satellite, coaxial cable and microwave radio. At right is AT&T's satellite earth station near Petaluma in northern California.

Alone of all other national long distance companies, AT&T Communications has telephone operators to assist callers. Barbara Whisenhunt, left, Donna Yates and, in background, Bob Donaldson, work at modern push-button consoles in Birmingham, Alabama.

technological flexibility it offers.

This network, almost entirely computer-controlled and 80 percent of it digitally-switched, consists of over a million miles of transmission facilities that cover the spectrum of long distance technologies: lightwave, satellite, coaxial cable and microwave radio. Its electronic switching systems are interconnected by the world's largest packet network–the latest technology for sending data as short bursts, or packets.

Using the nationwide network, AT&T Communications offers a broad range of voice, data and video services, including AT&T Long Distance Service; AT&T WATS (Wide Area Telecommunications Service); AT&T 800 service; Skynet℠ satellite service; and teleconferencing services.

We also offer special switched network services and a series of low, medium and high speed digital voice and data services known collectively as Accunet℠ digital services.

Card Caller public telephones will be introduced in airports and other busy locations in 1984. Calls are made by inserting a plastic AT&T card or, in the future, an American Express card.

And, of course, AT&T–alone of all other national long distance companies–has telephone operators to provide personal assistance to callers.

Over a two-year period beginning in September of 1984, customers will be asked to designate AT&T or one of its competitors as the long distance company they want to use. If no designation is made, the local Bell companies can route that customer's calls to the AT&T network.

Rates and Regulation

Besides adding to the capabilities and capacity of the network and offering services not available from others, we believe

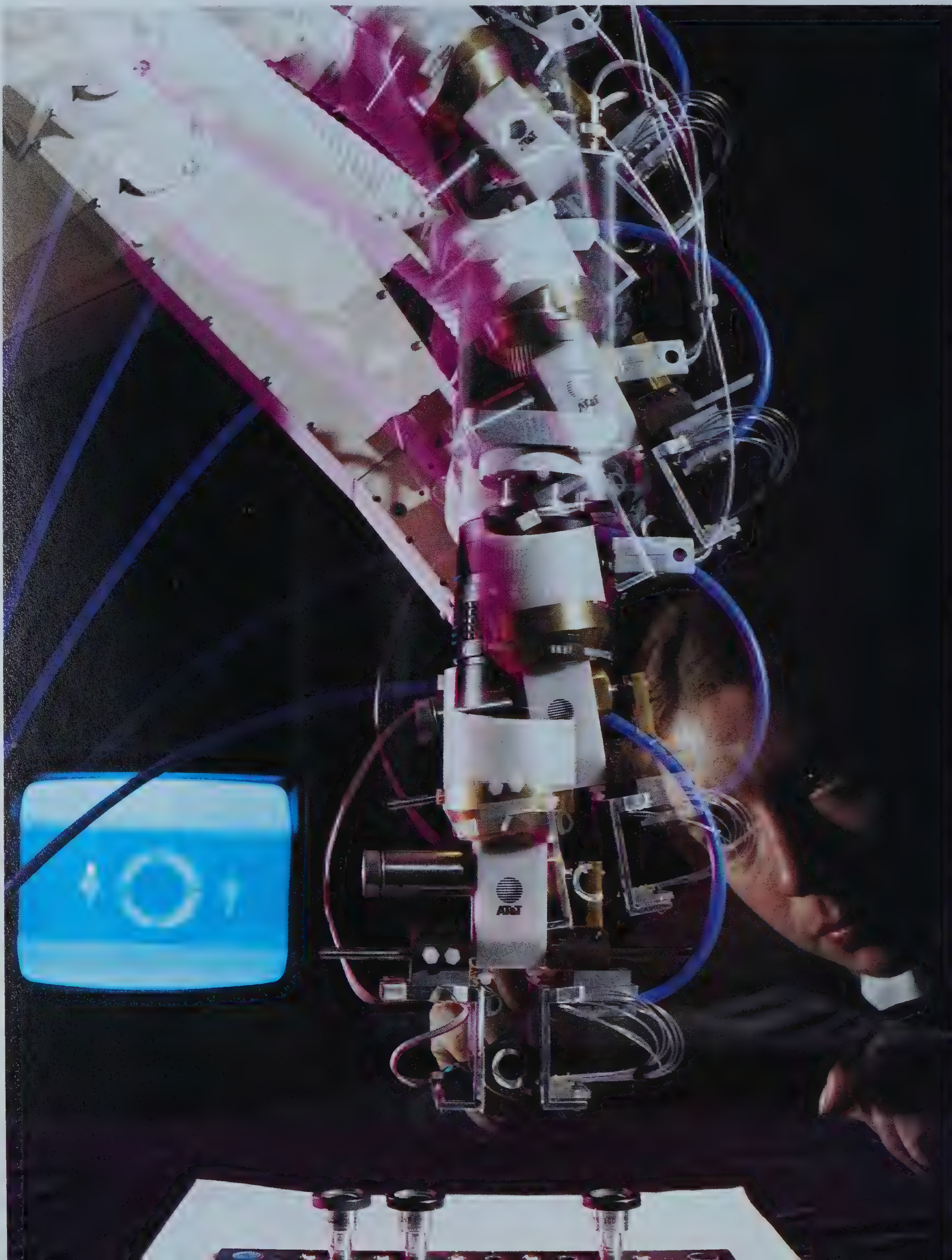
At the AT&T Communications network operations center in Bedminster, New Jersey, managers Richard Hauser, Colon Chambers and Lisa Stewart, left to right, keep long distance calls flowing smoothly over AT&T's nationwide network.

that lower long distance message rates would help to stimulate further growth. As mentioned earlier, however, the FCC's decision to postpone implementing its access charge order could prevent us from putting into effect, as planned, the biggest long distance rate reduction ever.

Another result of the Commission's action is that we will continue, for the time being at least, to pay more than twice what our competitors pay to connect with local telephone company lines.

At present, AT&T operates under considerably more regulation in the long distance business than other carriers. We seek to reduce regulatory burdens that apply to us but not others—burdens that handicap us in a competitive marketplace. There is strong sentiment within the FCC, endorsed by AT&T, for deregulating interstate services over time.

Meanwhile, we continue providing the best network in the world to move and manage information electronically.


AT&T

In the world of telecommunications, AT&T has long been a high technology company. We bring that technological capability with us into the broader business world we have now entered.

Our success in this new world will depend on our ability to convert new technology into the right products and services–and to get them to market at the right time and price.

Bringing that about–in old markets and new, in the United States and around the world–is the business of our AT&T Technologies sector.

Within this sector are seven lines of business. They are interdependent and related businesses. They are for the most part unregulated. And each seeks to be the leader in its own markets.

Our aim in establishing this kind of organization was to assure that each of our lines of business would have the development, manufacturing and marketing resources required to respond quickly to marketplace changes and new customer needs.

Toward that end, we have combined within a single enterprise–AT&T Technologies, Inc.–research and development, manufacturing, and our business groups that market equipment and services.

This corporation will be responsible for the financial obligations and other commitments of Western Electric, founded in 1869 as Gray and Barton and the principal manufacturer of Bell equipment since 1881.

The Western Electric name will continue to be displayed, with great pride, on many of our products. And that name will continue to represent the same high standards of excellence and quality as before.

AT&T Information Systems, part of this sector, continues to operate under the constraints of the FCC's Computer Inquiry II ruling. This ruling, made prior to the consent decree, when nearly all of our services were regulated, was meant to keep certain deregulated activities separate from the rest of our business operations.

For the most part, AT&T Technologies is engaged in activities that in the past were undertaken almost entirely to serve the Bell operating companies. What is new are the broader markets open to us and the way we are now organized to operate in those markets.

New, too, are some of the ways we are *doing* business. Distributing some of our products through other companies. Offering purchase options and quantity discounts. Selling as well as leasing. Entering joint ventures. Creating subsidiaries.

AT&T Bell Laboratories

Providing the technological base for these activities is Bell Laboratories, widely recognized as the world's foremost industrial research and development center. The technological leadership of Bell Labs gives us a sustainable edge in a very competitive environment.

Organizationally, Bell Laboratories has been kept essentially intact, because the activities involved in such basic technologies as microelectronics and computer

Within this sector are seven lines of business. They are interdependent and related businesses. They are for the most part unregulated. And each seeks to be the leader in its own markets.

The time lapse photograph at far left shows a high precision, intelligent robotic device in action. The device, being monitored by Bell Laboratories scientist Susan Hochwood, is currently being used in research and is planned for use in the manufacturing of photonic devices, such as optical detectors and light emitting diodes.

AT&T Technologies employee Brenda Potter, at left, assembles new Genesis telesystem, currently produced at company's Indianapolis plant.

software are essential to most of our product lines.

To ensure a tight focus on customer needs, however, development work at Bell Labs has been aligned with our new business units.

While its development capabilities continue to be applied to the needs of the divested Bell operating companies, they also are being directed to serve other customers and other markets.

In 1983, Bell Laboratories, which has averaged nearly one patent per day since its founding in 1925, received its 20,000th patent. This one was for an etching technique related to lightwave technology. Advances in this technology—including the development of an experimental semiconductor laser and a new lightwave detector that helped set a world record for long distance lightwave transmission—were among the highlights of Bell Laboratories' year.

We intend to maintain the current funding level for the research efforts that made these and so many previous technological advances possible—and to continue providing the necessary degree of freedom that scientific exploration requires.

* * *

The following pages are devoted to a brief review of the AT&T Technologies business groups and their markets.

Members of the Bell Laboratories research team that set a world record for long distance lightwave transmission are, from left, Paul Henry, Richard Linke, Richard Vodhanel, Joe Campbell, Andrew Dentai, Ivan Kaminow, Bryon Kasper and Jin-San Ko.

Network Systems

As the quality of our own nationwide network clearly shows, AT&T Network Systems is second to none in producing advanced, dependable telecommunications equipment.

On the basis of price and performance, we expect to continue attracting a large share of business from the Bell telephone companies. But we also expect to sell equipment to other telephone companies, long distance carriers and private businesses that want their own communications networks.

Moreover, through AT&T International, we are applying our network systems technology to overseas markets.

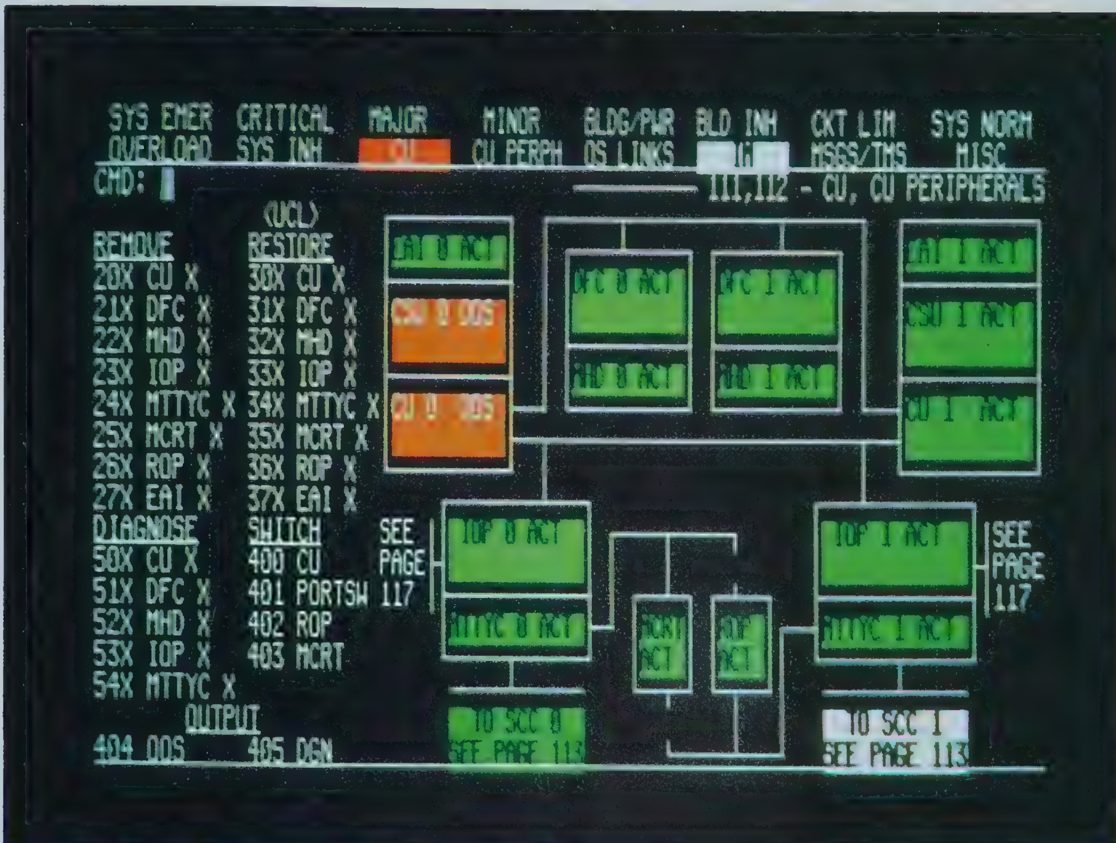
In switching equipment, AT&T Network Systems is currently producing the 5ESS™ electronic switching system, a world class family of digital electronic switching systems for use in local and long distance networks. The 5ESS can serve telephone central offices of only a few hundred lines to more than a hundred thousand lines. It is being adapted for use in the international market, and we have begun selling this state of the art digital switcher to independent (non-Bell) telephone companies.

AT&T Network Systems also produces the larger 4ESS toll switcher and Autoplex,™ a switching system for cellular mobile telephone service.

Its transmission systems division is providing new microwave digital radio systems as well as digital lightwave systems, which convert voice, computer and other signals into light pulses that travel through extremely thin strands of glass.

Current lightwave projects under way include a system for the Boston area (part of AT&T Communications' northeast corridor system) and a communications system for the 1984 Summer Olympic Games in Los Angeles.

We are the largest supplier of telecommunications systems and equipment in the world.



The color video display unit at left is part of AT&T's digital 5ESS electronic switching system. With it, technicians monitor and maintain the computer-like switching system.

In addition, AT&T was awarded the major part of the contract to design and build the first transatlantic undersea cable to use lightwave technology.

We are the largest supplier of telecommunications systems and equipment in the world. As elsewhere in the industry, competition is growing in this part of the business. But we expect to do more than just hold our own.

AT&T Technologies employee Ok Eakes uses a magnifying glass to work on small circuit boards in Oklahoma City.

It is this extraordinary service capability that sets us apart from others in the information systems market.

For all customers, especially business customers, the blending of telecommunications and data processing technologies offers possibilities for vastly improving the management and movement of information.

For AT&T Information Systems, the combining of these technologies in state of the art information management systems and enhanced services is an opportunity to become a leading competitor in a fast growing market.

Only a year old, this separate subsidiary of AT&T—formerly called American Bell—has brought to market a product line that integrates voice and data capabilities with other functions that help businesses and government agencies cut costs and improve the management of their operations. Its products are designed so that customers can upgrade and add new functions to their systems—while preserving their original investment in equipment.

Early in 1983 we introduced a new digital PBX, the Dimension® System 85, for large customers with complex communications and information management requirements. At midyear we increased its capacity and flexibility. By adding modular components, it can be expanded from several hundred to more than 25,000 lines. For use with System 85 is a new family of voice and data terminals, along with terminals that combine voice and data in a single, integrated unit.

We also took the first steps toward making our information systems compatible with the products and equipment produced by other Information Age vendors. Our aim is to help customers link the disjointed information systems now found in many workplaces into integrated, efficient networks.

Toward the end of the year, we began marketing our new Merlin™ communications system, which brings to small business customers features usually found only in larger electronic switchboard systems.

Providing business and residence customers with quality products is only step one, however. Step two is giving top quality *service*. At divestiture, some 73,000 employees from the divested companies—including 30,000 systems techni-

Charles Martin, a systems technician with AT&T Information Systems in Atlanta, Georgia, is one of 30,000 men and women who install and maintain AT&T products and systems for business customers throughout the country.

cians–joined AT&T Information Systems. These skilled installation and maintenance people, part of a nationwide network of service and sales centers, offer the kind of reliable service support that ensures customer satisfaction.

It is this extraordinary service capability that sets us apart from others in the information systems market.

Through some 900 AT&T Phone Centers, AT&T Information Systems also sells and leases telephones, and retails advanced customer equipment to home users and small businesses.

With divestiture, in-place (embedded) customer equipment was deregulated and transferred to AT&T Information Systems. We have notified customers with this equipment that they can either continue to lease it or, if they choose, buy it outright.

We are in this business for the long run, and we are confident of success.

Checking the design of new modules for the Dimension System 85 private branch exchange are, from left, Worth Kirkman, Wing Hong Yip and Kurt Kanaskie of AT&T Information Systems Laboratories.

Consumer Products

We increasingly are focusing on a new part of the market: multi-functional home telecommunications systems.

The home communications market once meant just telephone sets, some a little fancier than others. Basic telephones still make up a very big–and now a very competitive–part of this market. And we sell a lot of them.

But, through AT&T Consumer Products, we increasingly are focusing on a new part of the market: multi-functional home telecommunications *systems.*

In 1983, for example, we introduced several new, advanced consumer products. One is the Genesis™ telesystem, a microprocessor-based, programmable telephone that uses cartridges to add new features.

Another is the Emergency Call System Smoke/Fire Alert, which automatically dials a prerecorded number with a voice synthesized message when it is triggered by a smoke detector. Still another new product is a Medical Alert system, which sends a synthesized message in a medical emergency.

These and other consumer products are being sold through nearly 7,000 AT&T Phone Centers–900 of them operated by AT&T Information Systems and the rest in retail stores coast to coast.

AT&T Consumer Products is a leader in the dramatic new field of electronic home information technology known as videotex. With videotex, consumers use an easy to install system attached to a television set and their telephone line to shop or bank from home, to make reservations, and to receive a variety of information from data bases.

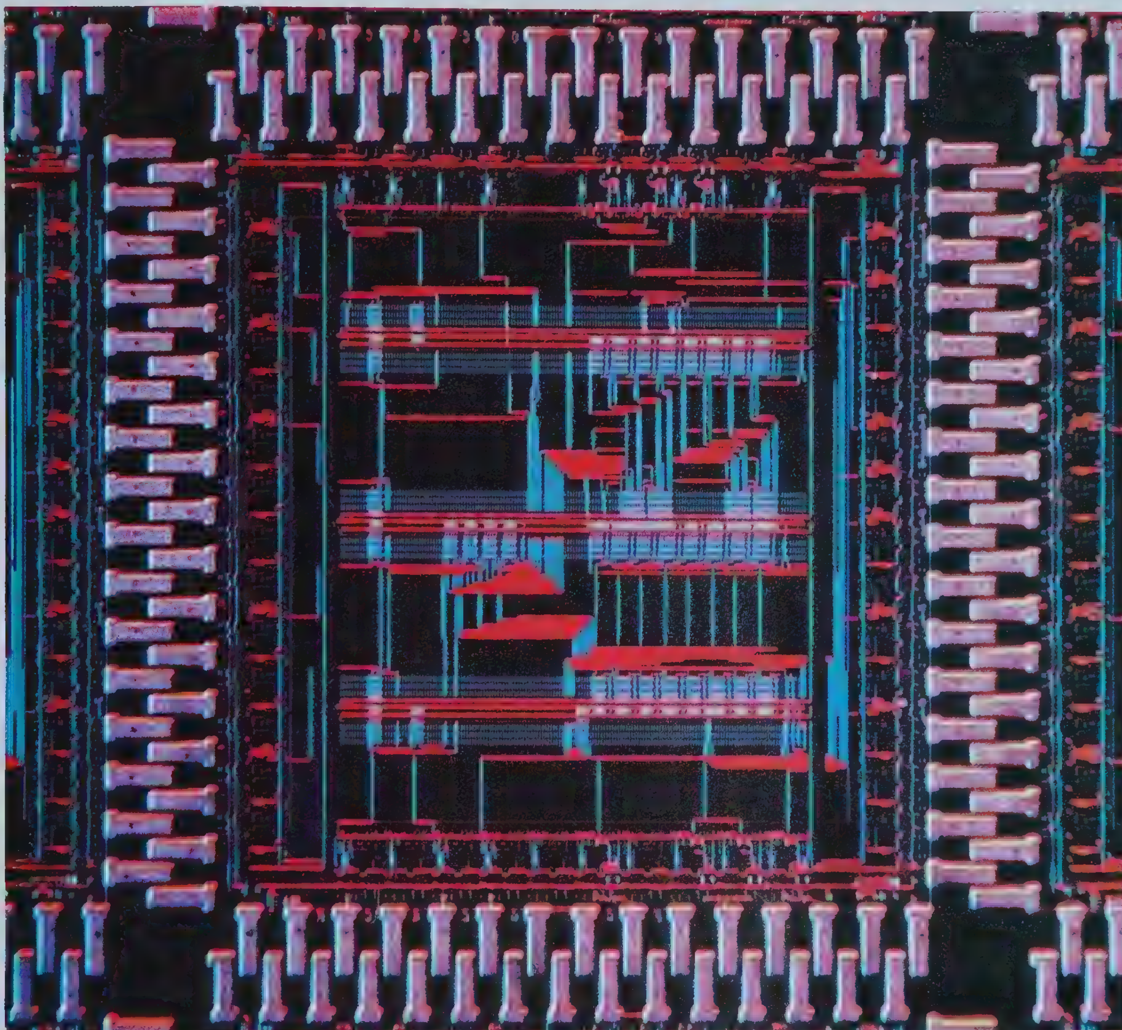
For videotex services we offer our new cordless Sceptre™ terminals for home use and our Frame Creation System to operators of the data bases.

This equipment presently is being used for the Viewtron™ service provided by Knight-Ridder Newspapers in south Florida, and it will be used later in 1984 in southern California as part of a service offered by Times-Mirror Videotex Services.

In addition to its residential products business, AT&T Consumer Products manufactures business equipment for AT&T Information Systems. It also develops, manufactures and markets public telephones and network terminal equipment, and it is marketing telephones for use with cellular technology–the latest in mobile communications. It also makes and markets a full line of data communications equipment through Teletype Corporation.

Moreover, AT&T Consumer Products is developing large scale information and composition systems for companies that provide their customers with commercial graphics, directory listings, data archives, technical drawings and the like. And we are creating interactive videodisc systems for educational and training purposes. These are new fields that go beyond the traditional telecommunications business.

AT&T Consumer Products account executive Joan Petrick describes the benefits of advanced AT&T telecommunications products.



We are one of the leading domestic producers of advanced electronic memory chips.

The microscopic world of electronics comes to life in MicroScapes, an AT&T Technologies photo exhibit to be shown in science and technology museums. At left is an enlarged photograph of an echo canceller chip.

An important part of our AT&T Technologies sector is AT&T Technology Systems, into which are grouped three separate business groups: Components and Electronic Systems, Computer Systems, and Federal Systems.

Our *Components and Electronic Systems* organization produces silicon chip products and other electronic components that are basic to three of the biggest growth markets in the world: telecommunications, information processing and computers.

In the past, nearly all of the components and electronic systems we produced were made for the Bell System companies. Now, besides our own product needs, other markets are open to us as well.

We are one of the leading domestic producers of advanced electronic memory chips. Between 1982 and 1983, the number of integrated circuits we made doubled. We are adding capacity to produce still more.

We were first into production with a 256K dynamic random access memory chip, developed by Bell Laboratories. This new device can store and retrieve as many as 256,000 bits of computer information on a single chip of silicon—four times the amount of information handled by the 64K chips currently in wide use.

We also are producing a Bell Labs-

Making computers is nothing new to AT&T.... We are expert at building them... and at creating the software systems on which they run.

designed microprocessor called the WE™ 32000. It processes 32 bits of information simultaneously. Smaller than a penny, this silicon chip provides the power of a super minicomputer at far less cost.

These two microchips—the 256K and the WE 32000—exemplify our leadership in the global microelectronics market.

Also produced within this line of business are printed wiring boards; electronic power systems; custom-designed very-large-scale integrated (VLSI) circuits; and lasers and light-emitting diodes for lightwave systems.

Few parts of our business are more expressive of the Information Age than this—nor more revealing of our technological strengths.

Our *Computer Systems* business unit is devoted to developing and manufacturing computers for communications and other, general purposes.

Making computers is nothing new to AT&T. We have been making them for more than two decades as part of our electronic switching systems and for other aspects of our operations. But now the 1982 modified consent decree allows us to market our computers to others.

Our product line consists of the 3B™ family of high performance, versatile computers designed by Bell Laboratories. The biggest of these is the 3B 20D (for "duplex," with dual central processing units). This minicomputer is widely used in network switching equipment, for which it is designed to be a thousand times more reliable than most commercially available computers.

The 3B 20S (for "simplex," or single central processing unit) computer handles a wide variety of general purpose computing applications.

We also are producing smaller, mid-range models—3B 5 computers—that are designed specifically for office applications.

All of our computers are based on the UNIX™ operating system. A computer operating system is essentially a collection of computer programs that manages the computer's functions and peripheral equipment. The UNIX system, developed by Bell Laboratories in 1969 and continually improved since then, is rapidly becoming the standard operating system used by other computer makers.

In short, we do not simply *use* computers. We are expert at building them—big ones and small ones—and at creating the software systems on which they run.

Also part of AT&T Technology Systems is our *Federal Systems* line of business.

In years past, AT&T was a major supplier of communications products and systems to the Federal government, and in particular to the Defense Department. Bell Laboratories and Western Electric were frequently called upon to participate in high priority defense projects.

We intend to pursue a broader base of government business in the future.

AT&T's WE 32000 microprocessor chip, smaller than a penny, has the power of the room-sized computer of a dozen years ago.

Our intention is to become a market leader on a global scale.

At our research facility in Naperville, Illinois, electronic experts from Bell Laboratories work with their counterparts from N. V. Philips to adapt AT&T switching systems for use in Europe. From left to right: Richard Bagley, Theo Schyf, Guus Schoorl, Peter Weber, Hans Verheul and Susan Houseman. Bagley and Weber are from Bell Laboratories.

Over a half-century ago, AT&T–through Western Electric–had extensive manufacturing and sales operations in countries overseas. But in 1925, with the demand for telephone service inside the United States stretching our resources to the utmost, we left the international marketplace.

Now, through AT&T International, we are back in it. And our intention is to become a market leader on a global scale.

With foreign competitors increasingly looking to enlarge their share of United States markets, AT&T International has begun moving into *their* markets with systems and products that are technically compatible with international standards.

We enter these foreign markets with formidable strengths, including Bell Laboratories' reputation abroad for technological innovation.

We are seeking to establish ourselves overseas by setting up our own offices as well as through export agents, foreign distributors, joint ventures, wholly owned subsidiaries and licensing agreements.

A joint venture firm formed in 1983 by AT&T International and N. V. Philips of the Netherlands will manufacture and market AT&T switching and transmission systems in Europe and other parts of the world.

And, as part of the agreement reached in 1983 with Olivetti, which has headquarters in Italy, we will acquire approximately 25 percent of that company's outstanding stock for some $260 million. We plan to distribute and may manufacture each other's products. Through this agreement we will be making our technology available abroad.

Also in 1983, we began negotiations to establish a majority-owned joint venture in Taiwan to make and market our 5ESS digital switching system there.

In another joint venture, this one in the Republic of Korea, we hold a 44 percent interest in the Gold Star Semiconductor Company, which is producing our 1A ESS electronic switching system.

In pursuing opportunities abroad, we seek to protect as well as maximize the investment of our shareowners. When market conditions change, therefore, we have to respond quickly. Thus, in 1983 we reduced the manufacturing capacity of Telectron, our subsidiary in the Republic of Ireland.

Of the many exciting aspects of AT&T's future, none is more exciting than the prospect of transferring our success in the United States to a global marketplace.

THE NEXT CHAPTER

A spirit of inquiry and enterprise has long marked AT&T's endeavors.

For AT&T, this is a time for looking ahead, not back. In that spirit, we are identifying new products—perhaps even entirely new businesses—that might come from technology already developed or being explored in our laboratories.

It is too soon to tell what will come of this effort. But it might be kept in mind that it is not only the great technologies of modern communications that flowed from AT&T, but also a far broader range of discoveries: innovations in basic physics for which seven of our scientists have won Nobel Prizes; pioneering work in digital computers and computing techniques; major contributions to the nation's aerospace efforts; the science of radio astronomy; and a variety of developments in the entertainment industry.

A spirit of inquiry and enterprise has long marked AT&T's endeavors. It is in this spirit that we have begun writing the next chapter of our history—after 99 years spent writing the first one.

The newly-restored "Spirit of Communications" sculpture overlooks the lobby of AT&T's new headquarters in New York City. Long ago nicknamed "Golden Boy," it was part of the lower Manhattan skyline for more than 60 years when it stood atop the company's old headquarters at 195 Broadway.

1983 ANNUAL REPORT

AT&T

Financial Section
CONTENTS

Historical Financial Statements

Future Operations

Supplementary Information

Results in Brief: Selected Financial and Operating Data

DOLLARS IN MILLIONS (000,000) except per share amounts		1983	1982	1981	1980	1979
Revenues	Local service	$ 30,275	$ 28,986	$ 25,553	$ 22,449	$ 20,208
	Toll service	34,529	33,257	30,189	26,051	23,371
	Other (including other income)	5,044	3,514	3,339	3,049	2,604
		69,848	65,757	59,081	51,549	46,183
Expenses	Operating	51,114	45,025	39,346	34,305	30,236
	Income taxes on operations	3,371	4,931	4,119	3,581	3,607
	Other operating taxes	5,309	4,879	4,430	3,928	3,602
	Interest	4,307	3,930	4,363	3,768	3,083
		64,101	58,765	52,258	45,582	40,528
Income before extraordinary charge and cumulative effect of a change in accounting principle		5,747	6,992	6,823	5,967	5,655
Extraordinary charge–net of taxes		(5,498)	–	–	–	–
Prior years cumulative effect of a change in accounting for deferred income taxes		–	287	–	–	–
Net Income		249	7,279	6,823	5,967	5,655
Preferred dividend requirements		127	142	146	150	156
Income applicable to common shares		$ 122	$ 7,137	$ 6,677	$ 5,817	$ 5,499
Earnings per common share		$ .13	$ 8.40	$ 8.47	$ 8.04	$ 8.01
Based on average shares outstanding (in thousands)		936,801	849,550	788,178	723,516	686,109
Amounts before 1983 extraordinary charge and pro forma amounts assuming the 1982 change in accounting for deferred income taxes had been applied retroactively:						
Income applicable to common shares		$ 5,620	$ 6,850	$ 6,726	$ 5,863	$ 5,532
Earnings per common share		$ 6.00	$ 8.06	$ 8.53	$ 8.10	$ 8.06
Total assets		$149,530	$148,186	$137,750	$125,553	$113,444
Long and intermediate term debt		$ 44,810	$ 44,105	$ 43,877	$ 41,255	$ 37,168
Preferred shares subject to mandatory redemption		$ 1,523	$ 1,550	$ 1,563	$ 1,575	$ 1,588
Convertible preferred shares subject to redemption		–	$ 301	$ 336	$ 385	$ 433
Dividends declared per common share		$ 5.85	$ 5.40	$ 5.40	$ 5.00	$ 5.00
Ratio of earnings to fixed charges†		2.77	3.58	3.26	3.34	3.76
Toll messages for the year ended December 31 (000,000)		19,732	19,323	18,643	17,457	16,193
WATS messages for the year ended December 31 (000,000)		8,159	6,615	5,655	4,874	4,244
Charges for toll messages and WATS messages for the year ended December 31, 1983 account for about 36% and 11%, respectively, of total billed operating revenues.						
Network access lines in service at December 31 (000,000)		87	85	84	82	79
Recurring charges for network access lines in service for the year ended December 31, 1983 account for about 25% of total billed operating revenues.						

†For the purpose of this ratio for the enterprise as a whole: (i) earnings have been calculated by adding total taxes on income, the income before income taxes of Western Electric, ownership interest of others in the net income of certain consolidated subsidiaries, dividends received on investments in less-than-fifty-percent-owned companies and fixed charges to Income before extraordinary charge and cumulative effect of a change in accounting principle, and by deducting therefrom the Company's share in the income of companies accounted for on an equity basis; (ii) fixed charges comprise total interest expense, dividends on preferred shares of a consolidated subsidiary held by others and such portion of rentals representative of the interest factor.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Non-recurring expenses associated with reorganizing the Bell System, the lingering effects of the recession, and increased competition in both the interstate long distance and terminal equipment markets—all had an impact on AT&T's ("Company") financial results in 1983. Also affecting the Company's results was an extraordinary charge recorded against income on December 31, 1983 of $5.5 billion, net of taxes, or $5.87 per share. Because the post-divestiture AT&T faces strong and growing competition in all parts of its business, it was necessary to change from the accounting principles AT&T used as a regulated business to the accounting principles appropriate for a competitive enterprise. The extraordinary charge reflects that accounting change.

Total revenues (including other income) for 1983 increased 6.2 percent compared with 11.3 percent in 1982 and 14.6 percent in 1981. Total expenses (including operating taxes and interest) increased 9.1 percent in 1983 compared with 12.5 percent in 1982 and 14.6 percent in 1981.

Income before the extraordinary charge and the cumulative effect of the change in accounting principle decreased 17.8 percent in 1983. This compares with increases of 2.5 percent in 1982 and 14.3 percent in 1981.

The rate of return on average total capital before the extraordinary charge and the cumulative effect of the change in accounting principle was 8.1 percent in 1983. This compares with 9.8 percent in 1982 and 10.3 percent in 1981. On a similar basis, the return to average common equity was 8.6 percent in 1983 compared with 11.8 percent in 1982 and 12.8 percent in 1981.

Revenues

Local and toll service revenues increased 4.1 percent in 1983, 11.7 percent in 1982 and 14.9 percent in 1981. The 1983 revenue growth was due in part to business growth and in part to rate increases.

Business growth varied by service category. Growth in domestic toll messages during 1983 was less than in recent years, while growth in network access lines, Wide Area Telecommunications Service (WATS) and international toll messages was stronger.

Bell System companies added 2.0 million network access lines during 1983 compared with 1.1 million access lines during 1982 and 2.1 million access lines during 1981.

Reflecting increased competition, total toll messages (domestic and international) increased by only 2.1 percent in 1983 compared with 3.6 percent in 1982 and 6.8 percent in 1981. WATS messages were up by 23.3 percent in 1983 compared with 17 percent in 1982 and 16 percent in 1981. Revenues from international calling were $2.0 billion in 1983 compared with $1.8 billion in both 1982 and 1981.

Higher intrastate rates contributed $2.1 billion to the increase in revenues in 1983 compared with $3.5 billion in 1982 and $2.1 billion in 1981. Interstate rate changes contributed $148 million in revenue during 1983, $557 million in 1982, and $729 million in 1981. Contributing to the increase in other revenues in 1983 was an increase in Directory advertising revenues of $427.2 million compared with increases of $439.2 million in 1982 and $371.9 million in 1981. Also revenues from sales and services of non-tariffed telecommunications equipment increased $1.2 billion in 1983.

Western Electric

Western Electric's net income (included in "other income") declined 84.9 percent in 1983 compared with a decrease of 52.7 percent in 1982 and an increase of 2.6 percent in 1981. Western Electric's net income for the fourth quarter of 1983 improved to $86.8 million, reflecting a turnaround from earlier quarterly results in 1983 of $106.0, $23.5, and $(165.6) million for the first, second, and third quarters, respectively.

The decline in 1983 earnings was principally due to diminished sales volumes as a result of reduced construction expenditures by Bell System companies and a three week strike in August. Western

Electric's sales for 1983 decreased 11.3 percent compared to a 3.3 percent decrease in 1982 and a 8.1 percent increase in 1981.

In addition, in 1983 Western Electric's net income was reduced by $140 million as a result of charges of $260 million to account for the future consolidation of its distribution and repair operations and for other reorganization plans. Another factor affecting Western Electric's 1983 earnings decline was a change in the method of accounting for certain computer software development costs which reduced net income by approximately $46.9 million.

In 1982 there was also an earnings decline due largely to a decision to phase out or reduce production at certain Western Electric manufacturing facilities. This decision had a one-time effect on earnings. In 1982, it increased expenses by $625 million, which reduced net income by $317.6 million.

Expenses

Inflation continued to have an effect on expenses during 1983. This was reflected in increases in salary and wage related costs, in research and systems engineering costs and in other operating and administrative costs. See also Supplementary Data on Page 29. Contributing to the increase in operating expenses were various capital recovery programs, including changes in both depreciation rates and depreciation practices as well as approximately $1.7 billion in non-recurring costs of consolidating operations and of starting new entities in compliance with Federal Communications Commission and divestiture-related reorganization plans. In addition, the cost of sales and services for non-tariffed telecommunications equipment and services increased operating expenses by $910 million in 1983. Included in other operating expenses is $260.2 million for damages awarded to Litton Industries, Inc. in an antitrust suit against the Company and certain Bell System companies.

Yearly Increases in Operating Expenses

(DOLLARS IN MILLIONS)	1983 over 1982	1982 over 1981	1981 over 1980
Wages and salaries, including cost-of-living adjustments	$1,356	$2,624	$2,358
Depreciation due to:			
Revised rates and practices	489	385	887
Expensing station connection costs	(162)	(184)	(626)
Increased plant investment	793	633	599
Charges for consolidating operations and starting new entities	1,700	—	—
Provision for pensions and other employee benefits	(380)	632	312
Cost of sales and services for non-tariffed telecommunications services	910	203	87
Research and systems engineering	252	103	88
Other operating and administrative expenses	1,131	1,283	1,336
Total	$6,089	$5,679	$5,041

Taxes

Total income taxes on operations decreased 31.6 percent in 1983 compared with an increase of 19.7 percent in 1982 and an increase of 15 percent in 1981. The Federal income tax decrease in 1983 is principally due to lower income before taxes and to the provisions of a closing agreement with the Internal Revenue Service regarding The Pacific Telephone and Telegraph Company's ("Pacific") tax liabilities. See also Note (F) to Historical Financial Statements. This reduction was partially offset by a decrease in expenses which are included in capital expenditures but are deductible currently for tax purposes. The State and local tax decrease is attributable to lower income before taxes. Other operating taxes increased 8.8 percent in 1983 compared with 10.1 percent in 1982 and 12.8 percent in 1981. Gross receipts taxes increased $194.2 million in 1983 compared with $122.0 million in 1982 and $145.2 million in 1981 due to increases in operating revenues. Social security taxes increased $131.9 million in 1983 compared with $205.3 million in 1982 and $224.7 million in 1981 due to higher taxable wage bases and increased wage levels.

Yearly Increases in Operating Taxes

(DOLLARS IN MILLIONS)	1983 over 1982	1982 over 1981	1981 over 1980
Income taxes on operations:			
Federal	$(1,522.2)	$ 725.0	$ 444.6
State and local	(36.8)	86.2	94.1
Other operating taxes:			
Property taxes	69.7	103.8	123.1
Gross receipts, Payroll-related and other taxes	359.8	344.9	378.7
Total	$(1,129.5)	$1,259.9	$1,040.5

Interest

Interest expense increased 9.6 percent in 1983 compared with a decrease of 9.9 percent in 1982 and an increase of 15.8 percent in 1981. The 1982 decrease is primarily due to legislation enacted by Congress in 1982 to clarify Pacific's eligibility for certain tax benefits—see Note (F) to Historical Financial Statements. The average interest cost on long and intermediate term debt issued during 1983 was 11.7 percent compared with 13.7 percent in 1982 and 15.5 percent in 1981. The embedded cost of long and intermediate term debt rose to 8.8 percent at the end of 1983 from 8.7 percent at the end of 1982 and 8.6 percent at the end of 1981.

Dividends

Total dividends paid to common share holders during 1983 were $5.85 per common share compared to $5.40 per common share in both 1982 and 1981. Included in the 1983 total was a special dividend of $.45 per common share paid to holders of record on March 31, 1983. This special dividend was not a "dividend increase" but rather was a one-time payment declared by the Company to accommodate a change in the schedule of its regular quarterly dividend payments. Dividends declared as a percent of Income Applicable to Common Shares before the extraordinary charge and cumulative effect of a change in accounting principle (excluding the special one-time dividend) were 90 percent for 1983 compared with 67 percent for 1982 and 64 percent for 1981. See also Market and Dividend Data on page 32.

Financing

The Bell System obtained approximately 84 percent of its capital needs through internal sources in 1983, 87 percent in 1982 and 73 percent in 1981. Total external long term financing in 1983 was $5.2 billion. The Company raised $3.9 billion in new equity of which $1.9 billion was raised through the Company's Dividend Reinvestment and Stock Purchase Plan, $768 million through employee savings plans, $147 million through the Bell System employee stock ownership plan, and $1.1 billion through an underwritten sale of 17,600,000 common shares. New equity raised in 1982 and 1981 amounted to $4.1 billion and $3.2 billion, respectively. Average common shares outstanding increased 87 million in 1983 compared with increases of 61 million in 1982 and 65 million in 1981.

Six subsidiaries sold $1.3 billion in long and intermediate term debt during 1983. AT&T and its consolidated subsidiaries raised $675 million through long and intermediate term debt issues in 1982 and $3.5 billion in 1981.

Due to increased liquidity, primarily as a result of the underwritten sale of common shares in the first quarter of 1983, the Company in April, 1983 cancelled its $750 million revolving bank credit agreements.

Debt Ratio

The Bell System's debt ratio (debt as a percent of total debt, common equity, and preferred shares) as a result of the extraordinary charge recorded against income, increased to 42.9 percent at year's end. It was 42.3 percent at year-end 1982 and 45.3 percent at year-end 1981.

If preferred shares subject to mandatory redemption were included with debt, the ratio would be 44.3 percent for 1983, 43.7 percent for 1982 and 46.8 percent for 1981.

Construction Costs

Reflecting increased utilization of facilities already in place and tight control of capital budgets, construction expenditures for tariffed telecommunications services in 1983 were $14.1 billion compared with $16.8 billion in 1982 and $18.1 billion in 1981.

Future Operations

A financial forecast of future operations for the year ending December 31, 1984 is provided on pages 22 through 28. This information has been extracted from documents which were filed with the Securities and Exchange Commission in a Report on Form 8-K on November 16, 1983.

See also Subsequent Events Through February 12, 1984 on page 25.

* * *

See Notes (A), (F), (Q), and (R) to Historical Financial Statements for matters pertaining to Extraordinary Charge, Rate and Related Matters, MCI and Litton Antitrust Litigation, and Department of Justice Antitrust Action, respectively.

Statements of Income and Reinvested Earnings

American Telephone and Telegraph Company and its Subsidiaries

DOLLARS IN MILLIONS (except per share amounts)	Year 1983	Year 1982	Year 1981
OPERATING REVENUES			
Local service			
Service and equipment charges	$25,298.8	$24,633.7	$21,727.8
Message charges	2,763.2	2,618.7	2,324.8
Public telephones	1,194.3	946.4	862.3
Private lines and other services	1,018.2	787.5	638.2
Toll service			
Message charges	23,053.3	23,356.7	22,232.7
WATS	6,825.6	5,565.0	4,487.7
Private lines and other services	4,649.8	4,334.7	3,468.1
Directory advertising and miscellaneous	5,515.8	3,623.7	2,913.1
Provision for uncollectibles	(915.8)	(773.4)	(589.1)
Total operating revenues	69,403.2	65,093.0	58,065.6
OPERATING EXPENSES			
Maintenance	15,548.0	14,986.2	12,987.7
Depreciation	9,854.2	8,734.5	7,900.3
Network and operator services	4,034.9	3,910.2	3,580.6
Marketing and customer services	6,641.1	6,126.6	5,192.0
Financial operations	2,194.8	1,882.0	1,671.1
Directory	1,335.5	1,218.3	1,048.9
Research and systems engineering	862.2	610.6	507.2
Provision for pensions and other employee benefits (D)	5,025.2	5,405.4	4,773.5
Other operating expenses	5,618.0	2,151.5	1,684.3
Total operating expenses	51,113.9	45,025.3	39,345.6
Net operating revenues	18,289.3	20,067.7	18,720.0
OPERATING TAXES			
Federal income taxes (B)	2,888.8	4,411.0	3,686.0
State and local income taxes (B)	482.5	519.3	433.1
Property taxes	2,019.1	1,949.4	1,845.6
Gross receipts, payroll-related, and other taxes (O)	3,289.5	2,929.7	2,584.8
Total operating taxes	8,679.9	9,809.4	8,549.5
Operating income	9,609.4	10,258.3	10,170.5
OTHER INCOME			
Western Electric Company net income (G)	50.7	336.7	711.3
Interest charged construction	356.8	317.6	287.5
Miscellaneous income and deductions-net (B)(E)	36.9	9.4	16.4
Total other income	444.4	663.7	1,015.2
Income before interest expense (carried forward)	$10,053.8	$10,922.0	$11,185.7

The accompanying accounting policies and notes are an integral part of the historical financial statements.

DOLLARS IN MILLIONS (except per share amounts)	Year 1983	Year 1982	Year 1981
Income before interest expense (brought forward)	$10,053.8	$10,922.0	$11,185.7
INTEREST EXPENSE (O)	4,307.2	3,930.0	4,362.8
Income before extraordinary charge and cumulative effect of a change in accounting principle	5,746.6	6,992.0	6,822.9
Extraordinary charge–net of taxes (A)	(5,497.9)	—	—
Prior years cumulative effect (through December 31, 1981) of the change in accounting for deferred income taxes (B)	—	286.8	—
NET INCOME	248.7	7,278.8	6,822.9
Preferred dividend requirements	126.5	141.9	145.7
INCOME APPLICABLE TO COMMON SHARES	$ 122.2	$ 7,136.9	$ 6,677.2
EARNINGS PER COMMON SHARE AMOUNTS based on weighted average number of shares outstanding of 936,801,000, 849,550,000 and 788,178,000 in years 1983, 1982 and 1981, respectively:			
Before extraordinary charge and cumulative effect of a change in accounting principle	$ 6.00	$ 8.06	$ 8.47
Extraordinary charge (A)	(5.87)	—	—
Prior years cumulative effect (through December 31, 1981) of the change in accounting for deferred income taxes (B)	—	.34	—
Earnings per Common Share	$ .13	$ 8.40	$ 8.47
REINVESTED EARNINGS			
At beginning of year	$28,888.5	$26,364.9	$23,946.4
Add net income	248.7	7,278.8	6,822.9
	29,137.2	33,643.7	30,769.3
Deduct dividends declared:			
Convertible preferred shares subject to redemption:			
$4 Cumulative convertible preferred shares	11.6	25.2	28.0
Preferred shares subject to mandatory redemption:			
$3.64 Preferred shares	35.9	36.4	36.4
$3.74 Preferred shares	37.4	37.4	37.4
$77.50 Preferred shares	41.7	42.6	43.6
Common: 1983, $5.85 per share; 1982, $5.40 per share and 1981, $5.40 per share	5,495.9	4,601.0	4,256.6
Miscellaneous—net	7.8	12.6	2.4
	5,630.3	4,755.2	4,404.4
At end of year	$23,506.9	$28,888.5	$26,364.9

Balance Sheets

American Telephone and Telegraph Company and its Subsidiaries

DOLLARS IN MILLIONS (except per share amounts)	at December 31 1983	1982
ASSETS		
TELEPHONE PLANT at cost		
In service	$162,104.4	$152,725.6
Under construction	4,731.4	5,229.6
Held for future use	58.2	91.0
	166,894.0	158,046.2
Less accumulated depreciation (A)	43,139.8	29,982.8
	123,754.2	128,063.4
INVESTMENTS		
At equity (G)		
Western Electric Company, Incorporated	4,621.3	4,757.1
Other	688.2	661.9
At cost	836.8	307.1
	6,146.3	5,726.1
CURRENT ASSETS		
Cash	208.2	137.5
Temporary cash investments at cost (approximates market value)	5,593.6	2,969.9
	5,801.8	3,107.4
Less drafts outstanding (H)	1,026.7	653.7
	4,775.1	2,453.7
Receivables		
Customers and agents less allowance for uncollectibles: 1983, $358.8; 1982, $302.0	8,834.0	7,764.5
Other	896.9	815.0
Material and supplies	1,436.3	1,178.8
Prepaid expenses (principally taxes)	342.6	245.8
Income taxes deferred for one year(B)	331.6	—
	16,616.5	12,457.8
OTHER ASSETS AND DEFERRED CHARGES	3,012.8	1,938.2
TOTAL ASSETS	$149,529.8	$148,185.5

The accompanying accounting policies and notes are an integral part of the historical financial statements.

DOLLARS IN MILLIONS (except per share amounts)	at December 31 1983	1982
INVESTED CAPITAL, LIABILITIES, AND DEFERRED CREDITS		
COMMON SHAREOWNERS' EQUITY		
Common shares—par value $1 per share (I)	$ 965.7	$ 896.4
Authorized shares: 1,200,000,000		
Outstanding shares: 1983—965,731,000; 1982—896,425,000		
Proceeds in excess of par value(I)	36,289.8	32,128.1
Reinvested earnings—see page 7	23,506.9	28,888.5
	60,762.4	61,913.0
CONVERTIBLE PREFERRED SHARES SUBJECT TO REDEMPTION (J)		
$4 cumulative convertible preferred (includes proceeds in excess of stated value)	—	301.4
PREFERRED SHARES SUBJECT TO MANDATORY REDEMPTION (J)	1,522.5	1,550.0
OWNERSHIP INTEREST OF OTHERS IN CONSOLIDATED SUBSIDIARIES		
Preferred shares subject to mandatory redemption (K)	510.9	535.8
LONG AND INTERMEDIATE TERM DEBT (L)	44,810.3	44,105.0
CURRENT LIABILITIES		
Accounts payable		
To unconsolidated subsidiaries	1,462.5	1,339.7
Payrolls	717.5	695.5
Others (C)	6,216.4	2,928.5
Debt maturing within one year (M)	2,307.5	3,045.0
Taxes accrued	940.1	1,669.3
Income taxes deferred for one year (B)	—	263.7
Advance billing and customers' deposits	1,729.7	1,668.0
Dividends payable	1,335.8	1,223.3
Interest accrued	1,159.2	1,126.5
	15,868.7	13,959.5
DEFERRED CREDITS		
Accumulated deferred income taxes (A) (B) (F)	16,366.0	17,804.4
Unamortized investment tax credits (F)	8,059.3	7,590.3
Other	1,629.7	426.1
	26,055.0	25,820.8
LEASE COMMITMENTS (N)		
TOTAL INVESTED CAPITAL, LIABILITIES, AND DEFERRED CREDITS	$149,529.8	$148,185.5

Statements of Sources of Funds Supporting Construction Activity

American Telephone and Telegraph Company and its Subsidiaries

DOLLARS IN MILLIONS (except per share amounts)	Year 1983	Year 1982	Year 1981
FUNDS FROM OPERATIONS			
Income before extraordinary charge and cumulative effect of a change in accounting principle	$ 5,746.6	$ 6,992.0	$ 6,822.9
Add expenses not requiring funds currently			
Depreciation	9,854.2	8,734.5	7,900.3
Deferred income taxes—net	2,400.7	4,167.7	1,851.4
Investment tax credits—net	469.0	1,046.6	969.7
Deduct income not providing funds currently			
Interest charged construction	356.8	317.6	287.5
Share of equity-basis companies' income in excess of dividends	(179.8)	(223.1)	197.5
Funds from operations before extraordinary charge and cumulative effect of a change in accounting principle	18,293.5	20,846.3	17,059.3
Extraordinary charge	(5,497.9)	–	–
Cumulative effect of a change in accounting principle	–	286.8	–
Extraordinary charge not requiring funds currently	4,869.9	–	–
Cumulative effect of a change in accounting principle not providing funds currently	–	(286.8)	–
Total funds from operations	17,665.5	20,846.3	17,059.3
Less dividends	5,622.5	4,742.6	4,402.0
	12,043.0	16,103.7	12,657.3
FUNDS FROM EXTERNAL FINANCING			
Issuance of shares, net of redemptions	3,902.1	4,463.4	3,168.7
Issuance of long and intermediate term debt	1,359.3	713.4	3,460.2
Decrease in short term borrowings—net	(807.5)	(674.1)	(513.0)
	4,453.9	4,502.7	6,115.9
Less retirement of long and intermediate term debt	557.1	785.0	595.0
	3,896.8	3,717.7	5,520.9
CHANGES IN WORKING CAPITAL† (excluding debt maturing within one year and income taxes deferred for one year)			
Cash and temporary cash investments	(2,321.4)	(1,191.1)	(255.6)
Receivables	(1,151.4)	(748.3)	(1,047.8)
Material and supplies	(257.5)	(7.2)	(153.7)
Prepaid expenses	(96.8)	(19.2)	(20.9)
Accounts payable	3,432.7	817.7	419.8
Taxes accrued	(729.2)	(1,525.9)	557.5
Advance billing and customers' deposits	61.7	191.3	197.9
Dividends payable	112.5	77.6	161.7
Interest accrued	32.7	32.4	99.5
	(916.7)	(2,372.7)	(41.6)
OTHER CHANGES†			
Investments	(600.0)	(72.3)	(420.0)
Other assets and deferred charges	(1,074.6)	(541.1)	(145.3)
Ownership interest of others in consolidated subsidiaries	(24.9)	(433.0)	22.0
Other—net	446.5	77.6	216.9
	(1,253.0)	(968.8)	(326.4)
FUNDS SUPPORTING CONSTRUCTION ACTIVITY	13,770.1	16,479.9	17,810.2
Add interest charged construction	356.8	317.6	287.5
TOTAL CONSTRUCTION FOR COMMUNICATIONS SERVICES	$14,126.9	$16,797.5	$18,097.7

†( ) Denotes a change which results in a decrease in funds supporting construction activity.
The accompanying accounting policies and notes are an integral part of the historical financial statements.

Accounting Policies

The consolidated financial statements of American Telephone and Telegraph Company ("Company") and its subsidiaries reflect the application of the accounting policies described below and in Notes (A), (D), (H) and (N) to Historical Financial Statements.

Consolidation–The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, except Western Electric Company, Incorporated ("Western Electric"). The consolidation process eliminates the effects of all significant intercompany transactions except as discussed below under "Purchases from Western Electric." The investment in Western Electric and certain other investments (where it is deemed that the Company's ownership gives it the ability to exercise significant influence over operating and financial policies) are included at equity (cost plus proportionate share of reinvested earnings). All other investments are included at cost. See also Note (G) to Historical Financial Statements.

Revenue Refunds–In 1983 and preceding years the Company and its telephone subsidiaries recorded in their financial statements material revenue refunds applicable to prior years as adjustments of the respective years' income and, within a year, as adjustments of the applicable interim periods' income.

Purchases From Western Electric–Western Electric has a substantial investment in manufacturing and other facilities which have been devoted mainly to its business with the consolidated telephone subsidiaries. Through December 31, 1983 Western Electric had supply contracts with the subsidiaries which provided that the prices it charged for the telephone equipment and materials it manufactured or procured for them would be as low as the prices it charged its most favored customers for like materials and services under comparable conditions. The consolidated financial statements reflect items purchased from Western Electric at cost to the telephone subsidiaries; this cost includes the return realized by Western Electric on its investment devoted to the communications business. See "Telephone Plant" below and Note (R) to Historical Financial Statements.

Telephone Plant–The investment in equipment and materials dedicated to providing communications services is stated at its original cost. The amounts shown do not purport to represent reproduction cost or current value. The original cost of telephone plant obtained from Western Electric includes a profit realized by Western Electric. (See "Purchases from Western Electric" above.) It is impossible to identify the particular purchases from Western Electric over a long period of years which were charged to the plant accounts and now remain therein, but the Company considers that such purchases made by the consolidated companies represent about 50% of the consolidated plant investment. Western Electric advises that its rate of profit before interest charges has varied by years and by classes of sales, but that such rate of profit before interest charges, included in prices for material sold and services furnished to affiliated telephone companies (including items chargeable to other than plant accounts), has been approximately 6% of such sales over both the twenty year and the three year periods ended December 31, 1983, respectively. Western Electric considers that its rate of profit before interest charges on those items which have been charged to the plant accounts is somewhat higher than its rate on total sales to the affiliated companies.

Because the Company and most of its subsidiaries, including Western Electric, joined in the filing of a consolidated federal income tax return for 1983 and previous years, Western Electric's profits before income taxes included in the cost of those materials and services in the plant accounts of the Company and its telephone subsidiaries are excluded from consolidated taxable income in the year acquired from Western Electric. Instead, such profits are recognized and taxed over the depreciable life of the related plant since, for tax purposes, Western Electric's profits have been excluded in determining the depreciable cost of telephone plant. Consequently, income tax liabilities have been higher than if the depreciation permitted for tax purposes had been based on the full amount initially paid to Western Electric. Western Electric provided the Company and its telephone subsidiaries with the funds necessary to pay the tax liability on these deferred profits in the year the related telephone plant was acquired. These payments have been treated as reductions of the investment in telephone plant which resulted in a reduction in depreciation expense over the life of the related plant. However, there is no material effect on Net Income because the decrease in depreciation expense is offset by the aforementioned increase in the income tax provision. See also Note (R) to Historical Financial Statements.

Material and Supplies–New material and reusable material are carried in inventory principally at average original cost, except that specific costs are used in the case of large individual items. Nonreusable material is carried at estimated salvage value.

Depreciation–The Company's provision for depreciation is based on the remaining life method of depreciation and straight-line composite rates. The remaining life method provides for the full recovery of the investment in telephone plant. In 1982 the Federal Communications Commission ("FCC") approved the implementation of the method of determining straight-line composite rates on the basis of equal life groups of certain categories of telephone plant acquired in a given year which will result in a higher provision for depreciation than that based on the previous method. See also Note (O) to Historical Financial Statements.

When depreciable plant, other than minor items thereof which are replaced, is retired, the amount at which such plant has been carried in telephone plant in service is charged to accumulated depreciation.

Maintenance and Repairs–The cost of maintenance and repairs of plant, including the cost of replacing minor items not effecting substantial betterments, is, with minor exceptions, charged to operating expenses.

Station Connections–During 1981 the FCC directed that beginning January 1981 certain costs of installing telephone service on a customer's premises be expensed instead of capitalized and that the balance of the investment in installation costs be amortized.

Interest Charged Construction–Regulatory authorities allow the Company and its telephone subsidiaries to accrue interest as a cost of constructing certain plant and as an item of income, i.e., interest charged construction. Such income is not realized in cash currently

but will be realized over the service life of the plant as the resulting higher depreciation expense is recovered in the form of increased revenues.

Research–The cost of research and systems engineering performed by Bell Telephone Laboratories, Incorporated ("Bell Laboratories") is included as expense in determining Net Income.

Income Taxes:
(1) Income tax regulations allow recognition of certain transactions for tax purposes in time periods other than the period during which the transaction will be recognized in the determination of net income for financial reporting purposes. Appropriate income charges (credits) and their subsequent reversal, reflected as deferred income taxes–net, prevent the tax effect of these timing differences from distorting net income.

(2) Investment tax credits result from provisions of federal tax law which allow for a reduction in tax liability based on certain construction expenditures. Corresponding reductions in tax expense are deferred and are amortized as reductions in tax expense over the life of the plant which gave rise to the credits.

(3) Under provisions of the federal tax law, a portion of the Company's current tax liability is reduced and the amounts involved are contributed currently to employee stock ownership plans ("ESOP").

Notes to Historical Financial Statements
Dollars in Millions (except per share amounts)

Extraordinary Charge

(A) For its tariffed telecommunications services, the Company's financial statements have been prepared in accordance with generally accepted accounting principles applicable to rate-regulated enterprises and thus reflect accounting policies and practices used by regulators in the rate-making process.

As a result of the Court-ordered January 1, 1984 divestiture, the Company's integrated telecommunications business has been split up with those portions which operate predominantly under monopoly regulation being assigned to seven regional holding companies ("RHCs") and those portions which face strong and growing competition being assigned to the post-divestiture AT&T. Consequently, certain of the Company's accounting policies and practices were no longer appropriate after December 31, 1983. Accordingly, the Company adjusted its financial statements on December 31, 1983 to reflect the discontinued use by the post-divestiture AT&T of accounting policies and practices appropriate for rate-regulated enterprises and restated the rate-regulated assets assigned to the post-divestiture AT&T on a basis appropriate for nonregulated enterprises.

These adjustments, each of which reduces the carrying value of the post-divestiture AT&T's net assets, consist of the following:

(1) Reducing the carrying value of terminal equipment and network facilities from the amounts recognized by regulators in the rate-making process to a lesser amount expected to be recoverable in a competitive environment.

(2) Establishing liability accruals for expenses which in the rate-making process have been accounted for only when paid. These include expenses for future compensated absences and special termination benefits.

(3) Establishing deferred income tax credits for tax timing differences which regulators in the rate-making process have recognized on a current basis rather than on a deferred basis as is required for nonregulated businesses.

These adjustments were accounted for as a divestiture-related extraordinary charge on December 31, 1983, reducing Income Applicable to Common Shares by $5.5 billion, net of taxes of $4.5 billion (comprised of $.1 billion of current taxes and $4.4 billion of deferred taxes), or $5.87 per share.

Commencing January 1, 1984, the published financial statements of the post-divestiture AT&T will reflect asset values and accounting principles appropriate for a nonregulated enterprise.

Additional accounting changes to be made in 1984 that do not require adjustments to income in 1983 are as follows:

Consolidation–The accounts of all significant subsidiaries controlled by post-divestiture AT&T will be consolidated, including Western Electric and Bell Laboratories which were previously included using the equity method.

Revenue Refunds–Liabilities for probable revenue refunds, if any, will be reflected in current results and, within a year, in the applicable interim periods' results.

Purchases from Western Electric–The profit realized by Western Electric on sales of equipment within the consolidated group will be eliminated. Such profit will not be realized until such equipment either is sold outside the consolidated group or is depreciated.

Lease Commitments–The asset values and related obligations of capital leases will be included in the balance sheet. The amortization of assets under capital leases and the interest cost of capital lease obligations will be included in current results.

Income Taxes

(B) The components of operating income tax expense are as follows:

	1983	1982	1981
Federal:			
Current	$ 84.5	$ (786.8)	$ 785.1
Deferred–net	2,234.3	3,973.9	1,782.2
Investment tax credits–net	440.9	1,089.4	967.8
ESOP tax credit	129.1	134.5	150.9
	2,888.8	4,411.0	3,686.0
State and local:			
Current	347.5	299.7	287.9
Deferred–net	135.0	219.6	145.2
	482.5	519.3	433.1
Total	$3,371.3	$4,930.3	$4,119.1

Income taxes on non-operating income included in Miscellaneous Income and Deductions–net are:

	1983	1982	1981
Federal:			
Current	$183.6	$ 8.3	$72.1
Deferred–net	10.1	10.6	1.5
	193.7	18.9	73.6
State and local:			
Current	(10.1)	11.6	11.3
Deferred–net	29.6	.2	–
	19.5	11.8	11.3
Total	$213.2	$30.7	$84.9

In 1982, the Company changed its accounting for certain deferred income taxes (primarily state and local taxes) to record deferred taxes on timing differences only when such deferred taxes are recognized by regulators in the rate-making process. This change was made to achieve greater consistency between financial reporting and the intrastate regulatory rate-making process. The effect of this change increased Income Applicable to Common Shares in 1982 by $352.7 ($.42 per share), which include the cumulative effect of the change as of the beginning of 1982 of $286.8 ($.34 per share). See also Note (P) to Historical Financial Statements. Pro forma amounts assuming the change in accounting for deferred income taxes had been applied retroactively are as follows:

	1982	1981
Income Applicable to Common Shares	$6,850.1	$6,726.3
Earnings per Common Share	$8.06	$8.53

Deferred income tax expense results principally from timing differences between depreciation expense for income tax purposes and depreciation expense reflected in these financial statements.

The decrease in 1982 Federal Income Taxes-Current and the related increase in Federal Income Taxes–Deferred is principally due to adjustments, primarily relating to prior years, made to reflect the reestablishment of eligibility for current and prior years for accelerated methods of tax depreciation for The Pacific Telephone and Telegraph Company ("Pacific"), a subsidiary, as discussed in Note (F) to Historical Financial Statements, and to conform the treatment of installation costs for tax purposes to the accounting treatment of such costs for financial statement purposes.

The effective federal income tax rate, as determined by dividing Federal income taxes (see above) by the sum of Federal income taxes, Income before extraordinary charge and cumulative effect of a change in accounting principle (after excluding the net income applicable to investments in unconsolidated companies accounted for on an equity basis), and the ownership interest of others in the net income of certain consolidated subsidiaries, was 34.9%, 39.9% and 37.9% for the years 1983, 1982 and 1981, respectively. The differences of 11.1%, 6.1% and 8.1%, respectively, between the effective rate and the federal income tax statutory rate of 46% are attributable to the following factors:

	1983	1982	1981
(1) Certain taxes and payroll-related construction costs capitalized for financial statement purposes, but deducted currently for income tax purposes, net of applicable depreciation	.6%	1.3%	2.8%
(2) Interest charged construction, which is excluded from taxable income, net of applicable depreciation	1.1	.8	.8
(3) Depreciation, not deductible for income tax purposes, on that portion of telephone plant costs which represents after-tax profit to Western Electric	(1.3)	(.9)	(.8)
(4) Amortization of investment tax credits over the life of the plant which gave rise to the credits.	8.2	5.7	5.3
(5) Net effects to recognize Pacific's reestablished eligibility for certain federal tax benefits. (F)	2.5	(1.4)	—
(6) Other differences	—	.6	—
Total	11.1%	6.1%	8.1%

DOLLARS IN MILLIONS (except per share amounts)

The Southern New England Telephone Company–23.7% owned. The Company's investment at equity is $198.3. The market value of the shares owned by the Company based on the closing price as obtained from the Composite Tape as of December 30, 1983 was $239.3. On February 9; 1984 the Company and Southern New England announced they had an agreement under which 6,893,564 shares of Southern New England owned by the Company will be sold in 1984; the remaining 42,000 shares owned by the Company will be given to Southern New England. The Company as of January 1, 1984 put the common shares it owns into a voting trust until the ultimate sale of the shares. Consequently, the Company no longer has the ability to exercise significant influence over the operating and financial policies of Southern New England and will cease applying the equity method of accounting for its investment. This change required an accrual of income taxes at the capital gains rate on the Company's estimated taxable gain. This reduced Income Applicable to Common Shares in 1983 by $18.0 ($.02 per share).

Cincinnati Bell Inc.–32.6% owned. On December 22, 1983 the Company and Cincinnati Bell announced they had an agreement under which Cincinnati Bell may purchase its shares that are owned by the Company over the next five years for about $114. The Company as of January 1, 1984 put the shares in a voting trust until the ultimate sale of the shares. Consequently, the Company no longer has the ability to exercise significant influence over the operating and financial policies of Cincinnati Bell and has ceased applying the equity method of accounting for its investment. The Company's investment at equity of $121.0 has been reduced to the agreed upon purchase price. This also required an accrual of income taxes at the capital gains rate on the Company's estimated taxable gain. These adjustments reduced Income Applicable to Common Shares in 1983 by $18.2 ($.02 per share).

The following summarized financial information is for the above three equity companies combined:

	1983	1982	1981
Operating revenues	$3,593.3	$3,502.7	$2,990.5
Operating expenses	3,025.5	3,039.9	2,535.2
Net Income	170.2	132.3	146.3

	1983	1982
Telephone plant–net	$2,531.6	$2,529.6
Current assets	536.9	357.8
Noncurrent assets	1,296.5	1,114.8
Total assets	$4,365.0	$4,002.2

	1983	1982
Preferred shares subject to mandatory redemption	$ 22.5	$ 34.5
Long-term debt	791.3	784.7
Current liabilities	576.8	440.4
Noncurrent liabilities	976.5	866.6
Total liabilities	$2,367.1	$2,126.2

Cash and Temporary Cash Investments

(H) Cash and Temporary Cash Investments have been reduced by the amount of drafts outstanding with a corresponding reduction in Accounts Payable. It is the practice of the Company and most telephone subsidiaries to make certain payments by draft and to record such drafts as accounts payable until such time as the banks honoring the drafts have presented them for payment.

Common Shares

(I) Book value per common share amounted to $62.92, $69.07, and $67.33 at December 31, 1983, 1982 and 1981, respectively. On May 23, 1983 the par value was changed from $16⅔ per share to $1 per share.

Common shares outstanding increased in the periods indicated as follows:

5,976,893, 721,589 and 1,024,946 shares issued in the years 1983, 1982 and 1981, respectively, upon conversion of the Company's $4 cumulative convertible preferred shares. See also Note (J) to Historical Financial Statements.

17,600,000, 27,700,000 and 18,150,000 shares sold through underwritten offerings in 1983, 1982 and 1981, respectively.

29,670,222, 26,887,926 and 22,775,416 shares sold at 95% of market in the years 1983, 1982 and 1981, respectively, under the Share Owner Dividend Reinvestment and Stock Purchase Plan. In addition, 2,010,528, 1,383,737 and 1,565,270 shares were sold at market for optional cash payments in the years 1983, 1982 and 1981, respectively, under that Plan.

5,712,000, 8,201,200 and 8,233,895 shares sold at market in the years 1983, 1982 and 1981, respectively, to the Bell System Savings Plan for Salaried Employees.

5,823,200, 6,922,300 and 5,908,700 shares sold at market in the years 1983, 1982 and 1981, respectively, to the Bell System Savings and Security Plan.

2,214,311, 2,697,245 and 2,621,592 shares issued at market in the years 1983, 1982 and 1981, respectively, in connection with the Bell System Employee Stock Ownership Plan through the election of an extra tax credit.

277,700 and 117,500 shares sold at market in the years 1983 and 1982 to the Bell System Voluntary Contribution Plan.

26,845 shares issued in 1983 under the Bell System Long Term Incentive Plan.

The Company issued 6,685,360 common shares in 1982 in connection with the acquisition, effective May 12, 1982, of the remaining ownership interest of others in Pacific's common shares. Included under "Issuance of shares, net of redemptions" for 1982 in the Statements of Sources of Funds Supporting Construction Activity is $371.0 for these shares.

Preferred Shares

(J) Authorized are 100,000,000 preferred shares at $1 par value. Outstanding are:

Convertible Preferred Shares Subject to Redemption

	$50 stated value, $4 cumulative convertible preferred	Proceeds in excess of stated value
December 31		
1981	6,688,228	$1.4
1982	6,002,719	$1.3
1983	–	–

Each $4 preferred share had been convertible prior to September 30, 1983 into approximately 1.05 common shares of the Company. 5,678,045 shares, 685,509 shares and 973,697 shares were converted in the years 1983, 1982 and 1981, respectively. See Note (I) to Historical Financial Statements. All shares outstanding at September 30, 1983 were redeemed at the stated value.

Preferred Shares Subject to Mandatory Redemption

	$50 stated value, cumulative preferred	$50 stated value, cumulative preferred	$1,000 stated value, cumulative preferred
	$3.64	$3.74	$77.50
December 31			
1981	10,000,000	10,000,000	562,500
1982	10,000,000	10,000,000	550,000
1983	9,700,000	10,000,000	537,500

The $3.64 preferred shares may be redeemed by the Company at a premium of $2.60 per $50 share on or before April 30, 1984 and at a diminishing premium thereafter. On May 1 of each year, commencing in 1984, the Company through a sinking fund must redeem without premium 3% of these shares; an additional 3% may be redeemed each year at the Company's option. During 1983 the Company purchased 300,000 shares to meet sinking fund obligations.

The $3.74 preferred shares may be redeemed by the Company at a premium of $2.67 per $50 share on or before January 31, 1985 and at a diminishing premium thereafter. On February 1 of each year, commencing in 1985, the Company through a sinking fund must redeem without premium 3% of these shares; an additional 3% may be redeemed each year at the Company's option.

The $77.50 preferred shares may be redeemed by the Company at a premium of $50.90 per $1,000 share on or before January 31, 1985 and at a diminishing premium thereafter. On February 1 of each year, the Company through a sinking fund must redeem at stated value 12,500 of these shares through 1992 and 18,750 shares each year thereafter and may redeem an additional equal number each year at the Company's option. Under these sinking fund provisions, the Company redeemed on February 1, 12,500 shares in each of the years 1981 through 1984 which reduced stated capital (as defined in the New York Business Corporation Law) by $12.5 in each year.

The total sinking fund requirement for all series of preferred shares subject to mandatory redemption are $27.5 for 1984 and $42.5 for 1985, 1986, 1987 and 1988. These sinking fund requirements are cumulative; that is, should redemption amounts not be set aside in full because the net assets of the Company are insufficient, or for any other reason, such amounts must be set aside, without interest, before any common share dividends are paid or declared, or any common shares are purchased or redeemed.

All preferred shares rank prior to the common shares both as to dividends and on liquidation but have no general voting rights. However, if dividends on any series of preferred shares are in default in an amount equal to six quarterly dividends, the number of directors of the Company will be increased by two, and the holders of all preferred shares will have the exclusive right, voting separately as a class, to elect such two additional directors so long as such default continues.

Ownership Interest of Others in Consolidated Subsidiaries

(K) Preferred Shares Subject to Mandatory Redemption–Pacific has authorized 24,000,000 of $25 par value cumulative voting preferred shares.

Outstanding shares amounted to 20,435,000, 21,430,000 and 22,120,000 at December 31, 1983, 1982 and 1981, respectively. The dividend rates on these shares ranged from 7.88% to 11.25%. These shares are subject to mandatory pro rata redemptions without premium through annual sinking fund contributions. Under these sinking fund provisions, Pacific redeemed 995,000 shares in 1983 and 690,000 shares in 1982. The total sinking fund requirements for the years 1984 through 1988 are $40.5, $42.4, $46.7, $46.7 and $46.7, respectively.

DOLLARS IN MILLIONS (except per share amounts)

Long and Intermediate Term Debt

(L) Interest rates and maturities on long and intermediate term debt outstanding at December 31, 1983 were as follows (see also Note (O) to Historical Financial Statements):

Maturities	2⅝% to 6⅞%	7% to 8⅞%	9% to 17%	Total
1985	$445.0	$ 50.0	$200.0	$695.0
1986	235.0	—	326.0	561.0
1987	375.0	—	—	375.0
1988	313.0	37.5	200.0	550.5
1989-1998	3,964.0	337.5	2,475.7	6,777.2
1999-2008	4,892.0	5,990.1	250.0	11,132.1
2009-2018	200.0	11,655.0	4,934.5	16,789.5
2019-2023	—	—	8,282.7	8,282.7
	$10,424.0	$18,070.1	$16,668.9	$45,163.0
Other				141.2
Unamortized discount–net				(493.9)
Total				$44,810.3

Substantially all of the properties of two of the Company's telephone subsidiaries, comprising about $21,939.4 of the total gross consolidated telephone plant, are subject to lien under mortgage bond indentures with outstanding balances of $2,680.0.

Debt Maturing Within One Year

(M) The Company's telephone subsidiaries have followed the practice of financing construction of telephone plant partially through bank loans, commercial paper, commercial notes and other notes, all of which are payable in twelve months or less after issuance, pending long term financing. See also Note (O) to Historical Financial Statements.

In April 1983, the Company cancelled its $750.0 revolving credit agreements due to increased liquidity, primarily as a result of the underwritten sale of common shares in the first quarter 1983.

Debt maturing within one year is included as debt in the Company's computation of debt ratios and consists of the following at December 31:

	Amounts			Weighted Average Interest Rate		
	1983	1982	1981	1983	1982	1981
Notes payable:						
Bank loans	$ 149.9	$ 438.7	$ 614.1	9.8%	9.3%	13.1%
Commercial paper	1,529.4	1,524.2	1,921.2	9.7%	8.5%	12.4%
Commercial notes	68.1	531.7	683.8	9.6%	8.6%	12.5%
Other notes	5.1	65.4	15.0	9.5%	10.3%	12.3%
Long and intermediate term debt maturing within one year	555.0	485.0	785.0	–	–	–
Total	$2,307.5	$3,045.0	$4,019.1	–	–	–
Average amounts of notes payable outstanding during the year	$1,529.8	$3,335.3	$3,206.7	9.8%*	12.5%*	16.3%*
Maximum amounts of notes payable at any month end during the year	$2,469.3	$3,982.7	$3,662.9	–	–	–

*Computed by dividing the average daily face amount of notes payable into the aggregate related interest expense.

Lease Commitments

(N) The Company and its consolidated subsidiaries lease certain facilities and equipment used in their operations and reflect lease payments as rental expense of the periods to which they relate. See Note (O) to Historical Financial Statements. At December 31, 1983 the aggregate minimum rental commitments under noncancellable leases for the periods shown were approximately as follows:

Years	Amounts
1984	$1,092.9
1985	892.5
1986	728.9
1987	571.0
1988	409.9
Thereafter	2,940.9
Total	$6,636.1

These leases include some which would be classified as "capital leases" under criteria established by the Financial Accounting Standards Board. However, for regulatory accounting and rate-making purposes, such leases are not capitalized. Had such leases been capitalized, the following amounts would have been included on the Balance Sheets:

	at December 31 1983	1982
Assets	$1,669.1	$1,791.7
Less:		
Accumulated amortization	716.8	736.2
Total	$ 952.3	$1,055.5
Lease commitments	$1,087.7	$1,213.0

The effect on Income Applicable to Common Shares for 1983, 1982 and 1981 would have been insignificant. Effective January 1, 1984 the assets and related obligations associated with capital leases will be reflected on the Balance Sheets. See Note (A) to Historical Financial Statements.

Additional Financial Information

(O)	1983	1982	1981
Depreciation—Percentage of average depreciable telephone plant	**6.43%**	6.13%	6.05%
Amortization of investment tax credits	**$ 725.7**	$ 795.5	$ 523.2
Gross receipts, payroll-related and other taxes:			
Gross receipts	**$1,527.2**	$1,333.0	$1,211.0
Social security	**1,502.1**	1,370.2	1,164.9
Capital stock	**164.9**	154.5	146.4
Miscellaneous	**95.3**	72.0	62.5
Total	**$3,289.5**	$2,929.7	$2,584.8
Interest expense:			
On long and intermediate term debt	**$3,952.4**	$3,866.8	$3,608.3
On notes payable	**149.8**	416.6	522.3
Other (F)	**205.0**	(353.4)	232.2
Total	**$4,307.2**	$3,930.0	$4,362.8
Rental expense*	**$1,768.2**	$1,508.4	$1,398.5
*Includes rental expense for satellite rentals based on usage	**$ 172.0**	$ 156.3	$ 128.4

Quarterly Financial Information (unaudited)

(P) All adjustments necessary for a fair statement of income for each period have been included.

Calendar Quarter		Total Operating Revenues	Operating Income	Net Income	Earnings Per Common Share**
1981	1st	$13,470.0	$ 2,318.7	$1,488.4	$1.90
	2nd	14,122.0	2,370.2	1,541.2	1.94
	3rd	15,145.2	2,759.9	1,923.6	2.36
	4th	15,328.4	2,721.7	1,869.7	2.26
Total		$58,065.6	$10,170.5	$6,822.9	$8.47
1982	1st	$15,638.1	$ 2,607.2	$2,010.6	$2.40
	2nd	16,144.7	2,614.7	1,745.7	2.04
	3rd	16,637.9	2,898.0	2,021.1	2.32
	4th	16,672.3	2,138.4	1,501.4	1.66
Total		$65,093.0	$10,258.3	$7,278.8	$8.40
1983	1st	$16,797.2	$ 2,570.7	$1,736.6	$1.87
	2nd	17,491.4	2,817.9	1,928.8	2.03
	3rd	17,516.2	2,587.2	1,458.0	1.51
	4th	17,598.4	1,633.6	623.2*	.62*
	Extraordinary charge (A)			(5,497.9)	(5.87)
Total		$69,403.2	$ 9,609.4	$ 248.7	$ .13

*Income before extraordinary charge

Results for the fourth quarter have been reduced by approximately $175.5 ($.19 per share) as a result of the award to Litton. See Note (Q) to Historical Financial Statements.

Results for the third quarter and the fourth quarter of 1983 include non-recurring charges related to the costs of consolidating operations and of starting new entities in compliance with FCC and divestiture-related reorganization plans. See Note (C) to Historical Financial Statements.

Results for the second quarter of 1983 include a charge by Western Electric to cover the costs of consolidating distribution and repair facilities. See Note (G) to Historical Financial Statements.

Results for the fourth quarter of 1982 include the Provision related to Facility Utilization Plan for Western Electric. See Note (G) to Historical Financial Statements.

Results for the second quarter of 1983 and the second and fourth quarters of 1982 include adjustments to recognize Pacific's reestablished eligibility for certain federal tax benefits which increased Net Income for the periods by $216.4, $34.2 and $157.0 ($.23, $.04 and $.18 per share), respectively. See Note (F) to Historical Financial Statements.

Income before the cumulative effect of the change in accounting for certain deferred income taxes for the first quarter of 1982 was $1,723.8. The prior years cumulative effect of the change, included in the first quarter of 1982, was $286.8 ($.34 per share). See Note (B) to Historical Financial Statements.

Pro forma amounts assuming the change in accounting for deferred income taxes had been applied in 1981 are as follows:

1981 Calendar Quarter	Net Income	Earnings Per Common Share**
1st	$1,499.4	$1.92
2nd	1,554.7	1.96
3rd	1,937.0	2.37
4th	1,880.9	2.27
Total	$6,872.0	$8.53

**Because of increasing numbers of common shares outstanding each quarter, the sum of quarterly earnings per common share does not equal earnings per common share for the year.

MCI and Litton Antitrust Litigation

(Q) In June 1980, MCI Communications Corporation was awarded $1.8 billion in treble damages in a civil antitrust suit against the Company. In January 1983, the U.S. Court of Appeals for the Seventh Circuit reversed in part and remanded the case to the lower court for a new trial on damages on certain issues. In July 1983, both parties petitioned the U.S. Supreme Court to review the case. In October 1983, the Supreme Court denied the petitions. In the opinion of the Company's legal counsel, any monetary liability or financial impact to which the Company and the Bell System companies might be subject after final adjudication would not be material in amount.

In June 1981, in another antitrust suit involving terminal equipment against the Company and certain Bell System companies, Litton Industries, Inc. ("Litton") was awarded $276.8 in treble damages. In February 1983, the U.S. Court of Appeals for the Second Circuit upheld the lower court's decision. In June 1983, the Company petitioned the U.S. Supreme Court to review the case. On January 16, 1984, the Supreme Court denied the Company's petition. As a result, the liability, including interest, was recognized in 1983. The decrease in Income Applicable to Common Shares for the Company and the Bell System companies, including Western Electric, in 1983 was $175.5 ($.19 per share).

Department of Justice Antitrust Action

(R) On August 24, 1982, the Modification of Final Judgment ("Consent Decree") between the Company and the Department of Justice ("DOJ") was entered by the U.S. District Court for the District of Columbia ("Court"), following the dismissal by stipulation of the DOJ's 1974 civil antitrust action involving the Company and its subsidiaries. The terms of the Consent Decree required that the Company divest those parts of the Bell System operating telephone companies that provide local exchange and exchange access service, as well as printed directory advertising, and also required termination of the License Contracts between the Company and the operating companies and the Standard Supply Contracts between Western Electric and the operating companies. Interexchange facilities, including those owned by the operating companies remained a part of the Company, which continues to own Western Electric and Bell Laboratories. Ownership of existing customer premises equipment ("CPE") remained with the Company. The divested operating companies are restricted to exchange services and other natural monopoly services; however, they may provide new CPE and printed directory advertising. A divested operating company is permitted to engage in any other business upon a showing to the Court that there is no substantial possibility that it could use its monopoly power to impede competition in the market it seeks to enter. The Company's access to the services of the divested operating companies will be on terms and conditions equal to other interexchange carriers.

The Court required the Company to reimburse the divested operating companies for costs of reconfiguration of their networks to provide equal access to all interexchange carriers that have not been recovered by the divested operating companies by January 1, 1994. The Company is prohibited after divestiture from using the word "Bell" and the Bell trademarks for itself and its subsidiaries and affiliates except for Bell Laboratories and foreign subsidiaries and affiliates. On January 1, 1984 the operating companies were divested by a spin-off to the Company's shareowners. The operating companies were divested with a debt ratio of approximately 45% (except for a somewhat higher debt ratio for Pacific).

As a result of divestiture, the divested operating companies could be required to make an immediate payment of approximately $1.2 billion of federal income taxes previously deferred on intercompany profits. While payment of these deferred taxes should have no direct effect on Net Income, an immediate payment would increase the divested operating companies' needs for cash. However, the Company believes that, pursuant to tax regulations, a closing agreement is likely to be entered into with the IRS which would result in only a moderate acceleration of the present time period over which these intercompany profits become taxable.

On November 16, 1983, the Company filed a Form 8-K (dated November 8, 1983) with the Securities and Exchange Commission which disclosed certain information concerning the effects of divestiture on the future operations of the Company. See also Management's Discussion and Analysis of Financial Condition and Results of Operations–Future Operations.

Report of Management

The financial statements on pages 6 through 10 which consolidate the accounts of American Telephone and Telegraph Company and its subsidiaries, have been prepared in conformity with generally accepted accounting principles.

The integrity and objectivity of data in these financial statements, including estimates and judgments relating to matters not concluded by year-end, are the responsibility of management as is all other information included in the Annual Report unless indicated otherwise. To this end, management maintains a system of internal accounting controls which, on an ongoing basis, is reviewed and evaluated. Our internal auditors monitor compliance with it in connection with the annual plan of internal audits. However, there are inherent limitations that should be recognized in considering the assurances provided by any system of internal accounting controls. The concept of reasonable assurance recognizes that the cost of a system of internal accounting controls should not exceed, in management's judgment, the benefits to be derived. Management believes that the Company's system does provide reasonable assurance that transactions are executed in accordance with management's general or specific authorizations and are recorded properly to maintain accountability for assets and to permit the preparation of financial statements in conformity with generally accepted accounting principles. Management also believes that this system provides reasonable assurance that access to assets is permitted only in accordance with management's authorizations, that the recorded accountability for assets is compared with the existing assets at reasonable intervals, and that appropriate action is taken with respect to any differences. Management also seeks to assure the objectivity and integrity of its financial data by the careful selection of its managers, by organizational arrangements that provide an appropriate division of responsibility, and by communications programs aimed at assuring that its policies, standards, and managerial authorities are understood throughout the organization.

These financial statements have been examined by Coopers & Lybrand, independent Certified Public Accountants. The other auditors referred to in their report are Arthur Young & Company, auditors of Western Electric Company, Incorporated and Southwestern Bell Telephone Company, and Arthur Andersen & Co., auditors of Illinois Bell Telephone Company.

The Audit Committee of the Board of Directors, which is composed of Directors who are not employees, meets periodically with management, the internal auditors, and the independent auditors to review the manner in which they are performing their responsibilities and to discuss auditing, internal accounting controls, and financial reporting matters. Both the internal auditors and the independent auditors periodically meet alone with the Audit Committee and have free access to the Audit Committee at any time.

R. N. Flint,
Senior Vice President and Comptroller

Report of Independent Certified Public Accountants

To the Shareowners of American Telephone and Telegraph Company:

We have examined the balance sheets of American Telephone and Telegraph Company and its subsidiaries as of December 31, 1983 and 1982, and the related statements of income and reinvested earnings and sources of funds supporting construction activity for the years ended December 31, 1983, 1982 and 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of two telephone subsidiaries and of Western Electric Company, Incorporated, the Company's principal unconsolidated subsidiary, were examined by other auditors; such statements reflect net income constituting approximately 25% of consolidated income before extraordinary charge for 1983, and 22% and 27% of consolidated net income for 1982 and 1981, respectively. The reports of the other auditors have been furnished to us and our opinion expressed herein, insofar as it relates to amounts included for subsidiaries examined by them, is based solely upon such reports.

In our opinion, based upon our examinations and the reports of other auditors, the financial statements referred to above present fairly the financial position of American Telephone and Telegraph Company and its subsidiaries at December 31, 1983 and 1982, and the results of their operations and sources of funds supporting their construction activity for the years ended December 31, 1983, 1982 and 1981, in conformity with generally accepted accounting principles which, except for the change in 1982, with which we concur, in accounting for deferred income taxes as described in Note (B) to Historical Financial Statements, have been applied on a consistent basis.

Coopers & Lybrand
1251 Avenue of the Americas
New York, N.Y.

February 13, 1984

Future Operations

The Consent Decree required that the Company divest those parts of the Bell System operating telephone companies that provide exchange telecommunications and exchange access service, as well as printed directory advertising and cellular advanced mobile communications service business. The Plan of Reorganization ("Plan"), with amendments agreed to by the Company and the Department of Justice and modifications required by the Court outlines how divestiture was accomplished on January 1, 1984.

Forecasted 1984 Statement of Income (Unaudited)

The financial forecast for the Company, consisting of a forecasted statement of income and summaries of significant anticipated sources of funds supporting construction activity, financial forecast assumptions and accounting policies, represents management's best estimate based on present circumstances of the most probable operating results and sources of funds supporting construction activity for the year ending December 31, 1984. Accordingly, the financial forecast reflects management's judgment based on present circumstances of the most likely set of conditions and management's most likely course of action. The assumptions disclosed herein are those that management believes are significant to the financial forecast or are key factors upon which the financial results depend. The assumptions presented are consistent with the Plan approved by the Court. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur subsequent to November 8, 1983, the date of the financial forecast. Therefore, the actual results achieved during the forecast period will vary from the financial forecast, and the variations may be material.

It should be noted that the financial forecast is for the Company as it will be constituted in 1984 after giving effect to divestiture. Consequently, it does not include the operating results of the divested parts of the Bell System.

The financial forecast has been extracted from documents which were filed on November 16, 1983 with the Securities and Exchange Commission in Report Form 8-K dated November 8, 1983.

This forecasted statement of income includes estimates of the impact of transactions with the divested telephone companies. Due to potential competitor and supplier relationships, the assumptions used by the Company with regard to the FCC prescribed rate structures of new exchange access tariffs which will specify the charges ("Access Charges") which will apply to the facilities of the Bell operating telephone companies ("BOCs") used or available for the origination and termination of interstate long distance communications, sale of CPE, sales by Western Electric and other similar transactions were not disclosed in detail to the 22 previously wholly-owned subsidiary BOCs and regional holding companies ("RHCs") and thus will not necessarily be the same as the assumptions used by them regarding such transactions.

The Company has not and does not intend to update this forecasted statement of income because actual results will be reported during 1984. Consequently, it should be evaluated in light of any events and changes in circumstances occurring after November 8, 1983 (see also Subsequent Events Through February 12, 1984 on page 25).

It should be noted that the financial forecast is for newly restructured entities with new modes of operation and new tariff structures for which comparable historical results do not exist. The extent of the changes required as a result of divestiture do not permit meaningful comparisons between forecasted results and the results for periods prior to 1984. In addition, the 1984 financial forecast reflects significant changes in accounting policies, including the consolidation of Western Electric and the adoption of accounting policies appropriate for nonregulated enterprises.

DOLLARS IN MILLIONS (except per share amounts)	Post-Divestiture Forecasted Year 1984
Total Operating Revenues	**$56,544.1**
Depreciation	3,420.2
Other Operating Expenses	48,144.6
Total Operating Expenses	**51,564.8**
Net Operating Revenues	**4,979.3**
Federal Income Taxes	1,084.6
Other Operating Taxes	1,764.2
Total Operating Taxes	**2,848.8**
Operating Income	**2,130.5**
Other Income	**655.6**
Interest Expense	**676.1**
Net Income	**2,110.0**
Preferred Dividend Requirements	113.4
Income Applicable to Common Shares	**$ 1,996.6**
Earnings per Common Share	**$ 2.02**
Weighted Average Number of Shares Outstanding (Millions)	989.1

See accompanying Summary of Significant Financial Forecast Assumptions for the year ending December 31, 1984, and Note to Forecasted 1984 Statement of Income.

Summary of Significant Financial Forecast Assumptions For The Year Ending December 31, 1984

Dollars in Millions (except per share amounts)

General Economy

(A) The following national economic assumptions were considered in preparing the 1984 financial forecast.

Growth in Real Gross National Product (GNP)	5.0%
Increase in Consumer Price Index (CPI)	4.4%
Annual Average Interest Rates:	
AAA Bond Rating	12.2%
Prime	11.6%
90 Day Commercial Paper	9.8%

Operating Revenues

(B) The forecasted revenues of the AT&T Communications division which includes the former AT&T Long Lines interstate organization ("AT&T Communications") which account for over half of the Company's consolidated 1984 forecasted revenues, are based on estimated rates and volumes of business. The forecast assumes that the FCC will permit to become effective on April 3, 1984 currently filed tariffs for interstate services which would make numerous changes to the present interstate tariffs, including a proposed reduction of approximately 10% in interstate message toll telephone rates. Interstate toll service accounts for about 75% of AT&T Communications' forecasted revenues. The forecast assumes an increase in volume during 1984 over 1983 as a result of the growth in the overall market, the proposed interstate rate reduction, and other fac-

tors. AT&T Communications' remaining forecasted revenues will be generated by intrastate toll service, for which rate applications have been or will be filed before regulatory commissions.

It is assumed that the rates to be approved by the FCC and state regulatory authorities will recover (based on regulated book values and accounting practices which do not reflect the divestiture-related extraordinary charge described in Note A to Historical Financial Statements) the costs (including the cost of capital) of providing these services.

Following the FCC's October 18, 1983 Order suspending the effective date of interstate Access Charges to customers and interexchange carriers from January 1, 1984 to April 3, 1984, the Company and the RHCs reached agreement as to an interim arrangement designed to compensate the BOCs for the use of their facilities for interstate toll and related services on a basis that is approximately consistent with the current level of interstate earnings (which level is somewhat lower than the authorized rate of return). The forecast assumes that such arrangement will be in effect from January 1, 1984 to April 3, 1984.

The forecast also assumes that the implementation by the FCC of interstate Access Charges will occur on April 3, 1984, and that the Access Charge process will not be altered through (i) congressional legislation which, as currently proposed, seeks to suspend or prohibit Access Charges to residential and small business customers and also seeks to extend the present reduced interconnection rates charged to interexchange carriers other than the Company, or (ii) judicial action relating to an appeal of the FCC's Order initially adopting Access Charges which is pending before the U.S. Court of Appeals for the District of Columbia Circuit.

Any changes in these assumptions could have a significant effect on forecasted Net Income; any further delay in implementation of Access Charges would reduce forecasted Net Income.

The majority of the forecasted revenues of Western Electric, Bell Laboratories, AT&T International Inc. ("AT&T International") and AT&T Information Systems Inc. ("AT&T Information Systems") which comprise the AT&T Technologies sector are expected to come from the sale of equipment by Western Electric to the previously affiliated BOCs and from the leasing of embedded customer premises equipment. The AT&T Technologies sector faces strong competition. However, the forecast assumes that through the introduction of new products and components, competitive pricing and performance, and aggressive marketing, AT&T Technologies will maintain its overall competitive position in an expanding telecommunications market. The forecast assumes that Western Electric will be able to meet its requirements for components through its own production and through purchases from external suppliers. The forecast assumes that the cost of embedded customer premises equipment (after the reduction in carrying value described in Note A to Historical Financial Statements) will be recovered through revenues from continued leasing and from sales of such equipment to customers.

In addition, the forecast assumes that the FCC will approve the Company's requests to detariff embedded customer premises equipment prior to divestiture and will approve the pricing program set forth in such request, and that such equipment will be transferred to the existing AT&T Information Systems subsidiary. If the request to detariff is not approved, expenses would be significantly increased due to the need to keep separate tariffed and detariffed customer premises equipment operations. Changes to the pricing program could affect forecasted revenues.

Depreciation

(C) Depreciation is provided on the estimated level of plant expected to be owned by the Company during 1984. Depreciation on assets to be owned by AT&T Communications is estimated using a straight-line method based on average remaining lives at a composite rate of 6.9%. These depreciation rates are expected to be allowable in determining revenue requirements in rate-making proceedings. Depreciation on assets to be owned by AT&T Technologies is estimated principally using the straight-line method based on average remaining lives at a composite rate of 11.0%. Construction costs of $3.8 billion for the period are estimated based on anticipated demand for telecommunications services and products as well as planned improvements to existing services and manufacturing facilities.

Other Operating Expenses

(D) Other Operating Expenses include estimated charges of $21.8 billion to compensate the BOCs for the use of their facilities for toll and related services (including customer billing) under interim arrangements from January 1, 1984 until April 3, 1984 and under Access Charge tariffs starting April 3, 1984 (see Assumption (B)). These costs could increase significantly if Access Charge tariffs are not implemented as currently proposed.

Other Operating Expenses also include salaries, wages, pensions and other employee related expenses. Salaries and wages, including cost-of-living adjustments, are estimated based on expected post-divestiture force levels and reflect new union contracts agreed upon in August 1983. Pensions and other employee related expenses are estimated based on expected force levels and estimated payroll used to calculate such expenses. It is estimated that the changes in wages and fringe benefits resulting from the new contracts, as well as

adjustments in ranges of compensation and fringe benefits for management employees, will increase expenses by about $833.1 in 1984.

Cost of goods sold of $7.4 billion (computed on a first-in, first-out basis) included in Total Operating Expenses as a percentage of sales is 58.9%. Anticipated productivity improvements from closing and downsizing certain facilities at Western Electric are reflected in the forecast of cost of goods sold. Maintenance expense as a percentage of the level of plant is expected to remain relatively constant during 1984. Other Operating Expenses, excluding access charges, salaries, wages, pensions, other employee related expenses and cost of goods sold, include an adjustment for inflation.

Operating Taxes

(E) The estimated effective annual Federal income tax rate is expected to be 34.0%. The difference of 12.0% between the estimated effective tax rate and the assumed statutory rate of 46% is attributable to the following factors:

1. Amortization of investment tax credits over the life of the plant which gave rise to the credits	10.0%
2. Research and experimentation credit	2.4
3. Other differences	(.4)
Total	12.0%

The investment tax credit rate is expected to remain at 10%. Tax estimates are in accordance with the Tax Equity and Fiscal Responsibility Act of 1982. Social Security taxes are computed using a 7.0% rate on the statutory wage base. State and local tax estimates are determined based on taxable bases and statutory tax rates.

Interest Cost

(F) Total interest costs were computed using an embedded cost of funded debt of 8.0% and an average estimated cost for short term debt of 9.8%. The interest cost of funded debt equals 94.8% of total interest costs. The interest expense included on the forecasted statement of income is net of $117.3 of interest costs expected to be capitalized.

Summary of Significant Anticipated Sources of Funds Supporting Construction Activity

(G)	
Funds from operations (net of first quarter 1984 dividends, annualized, of $1,303)	$5,542.2
Funds from external financing, net	428.5
Change in working capital	(1,817.4)
Other	(362.8)
Total construction activity	$3,790.5

Contingent Liabilities

(H) No amounts have been included in the financial forecast for the matters discussed in Note (Q) to Historical Financial Statements.

Subsequent Events Through February 12, 1984

(I) On November 23, 1983 the FCC approved the Company's request to detariff embedded customer premises equipment and modified the pricing program set forth in such request; such modifications are not expected to affect significantly the Company's forecast. On January 19, 1984 the FCC announced it would proceed with the implementation of interstate customer Access Charges (end user Access Charges) on April 3, 1984 to multi-line business customers but would delay implementation of end user Access Charges to residential and single line business customers until mid-1985 in order to provide time for additional study and possible development of new plans and tariff arrangements. The FCC also reduced the new interconnection rates (carrier Access Charges) to be charged commencing April 3, 1984 to interexchange carriers, other than the Company, from levels it previously had established. The FCC could require the Company to pay higher carrier Access Charges to the operating companies for some or all of the revenues they will lose as a result of the delay and change in Access Charges, in which case the Company would modify its planned reductions in interstate message rates. In view of the interrelationship of these matters and in the absence of final decisions on rates and Access Charges, the effects, if any, on the Company's forecasted net income are not now determinable.

Note to Forecasted 1984 Statement of Income (Unaudited)

Summary of Significant Accounting Policies

The forecasted statement of income is prepared in accordance with the generally accepted accounting principles expected to be used for the financial statements issued during the forecast period. Generally accepted accounting principles used in the forecasted statement of income have been applied on a basis consistent with those principles used in the consolidated historical statements of income for the years 1983, 1982 and 1981, except as described below:

Consolidation—The forecasted statement of income consolidates the accounts of all significant subsidiaries controlled by the Company including Western Electric and Bell Laboratories which previously were included using the equity method.

Accounting Policies and Practices Appropriate for Nonregulated Enterprises—As a result of the divestiture, those portions of the integrated Bell System telecommunications business which face strong and growing competition were assigned to the post-divestiture AT&T; consequently, generally accepted accounting principles appropriate for a rate-regulated enterprise will no longer be applied by the post-divestiture AT&T. The changed accounting policies and practices are described in Note (A) to Historical Financial Statements.

Unaudited Pro Forma Condensed Balance Sheet

American Telephone and Telegraph Company

The following Unaudited Consolidated Historical Balance Sheet as of June 30, 1983 is derived from the unaudited financial statements of the Company and its consolidated subsidiaries included in its Quarterly Report filed with the Securities and Exchange Commission on Form 10-Q.

The following Unaudited Pro Forma Condensed Balance Sheet gives effect to the divestiture of the telephone subsidiaries by the Company as if it had occurred on June 30, 1983, in accordance with the Plan and reflects concurrent divestiture-related extraordinary charge for the discontinued application of accounting principles appropriate only for a rate-regulated enterprise. The pro forma balance sheet is presented as of June 30, 1983 as a result of agreements reached with the Securities and Exchange Commission for the November 16, 1983 Form 8-K filing. Even though divestiture occurred on January 1, 1984, final data is not readily available for all of the divested companies and actual balances and adjustments will vary from those presented in the pro forma balance sheet below. The Unaudited Pro Forma Condensed Balance Sheet should be read in conjunction with the audited consolidated financial statements and notes for the years ended December 31, 1983, 1982 and 1981.

DOLLARS IN MILLIONS	Consolidated Historical June 30, 1983	Divestiture Pro Forma Adjustments	Divestiture-Related Extraordinary Charge	Pro Forma Consolidated June 30, 1983
		See Note (1)	See Note (2)	
ASSETS				
TELEPHONE PLANT—Net of Accumulated Depreciation	$130,056.5	$(121,087.1)(a) 15,431.3 (b) 377.0 (d) 3,993.3 (e)	$(8,857.0)	$19,914.0
INVESTMENTS	5,960.0	57,692.2 (a) (9,213.7)(b) (46,668.0)(c) (5,017.1)(e) (2,128.4)(f)	—	625.0
CURRENT ASSETS	14,887.3	(9,030.9)(a) 374.4 (b) 5,234.8 (e) 90.4 (f)	—	11,556.0
OTHER ASSETS AND DEFERRED CHARGES	2,614.6	(2,099.3)(a) 44.3 (b) 7.0 (e) 57.9 (f)	—	624.5
TOTAL ASSETS	$153,518.4	$(111,941.9)	$(8,857.0)	$32,719.5

See accompanying Notes to Unaudited Pro Forma Condensed Balance Sheet.

DOLLARS IN MILLIONS	Consolidated Historical June 30, 1983	Divestiture Pro Forma Adjustments	Divestiture-Related Extraordinary Charge	Pro Forma Consolidated June 30, 1983
		See Note (1)	See Note (2)	
INVESTED CAPITAL, LIABILITIES, AND DEFERRED CREDITS				
COMMON SHAREOWNERS' EQUITY:				
Common Shares–par value $1 per share	$ 936.7	$ —	$ —	$ 936.7
Proceeds in Excess of Par Value	34,629.6	(25,233.7)(c)	—	9,395.9
Reinvested Earnings	29,580.7	(21,495.4)(c)	(5,497.9)	2,587.4
CONVERTIBLE PREFERRED SHARES SUBJECT TO REDEMPTION	277.9	—	—	277.9
PREFERRED SHARES SUBJECT TO MANDATORY REDEMPTION	1,537.2	—	—	1,537.2
OWNERSHIP INTEREST OF OTHERS IN CONSOLIDATED SUBSIDIARIES	535.8	(535.8)(a)	—	—
LONG AND INTERMEDIATE TERM DEBT	45,319.5	(37,554.3)(a) 845.9 (b) 1,085.8 (e) (228.0)(f)	—	9,468.9
DEBT MATURING WITHIN ONE YEAR	1,617.4	(1,719.6)(a) 1,252.8 (b) 333.6 (e) (1,117.8)(f)	—	366.4
OTHER CURRENT LIABILITIES	11,277.0	(8,852.7)(a) 218.7 (b) 1,642.6 (e) (634.3)(f)	400.1	4,051.4
DEFERRED TAXES AND OTHER DEFERRED CREDITS	27,806.6	(25,862.7)(a) 4,318.9 (b) 61.1 (c) 377.0 (d) 1,156.0 (e)	(3,759.2)	4,097.7
TOTAL INVESTED CAPITAL, LIABILITIES, AND DEFERRED CREDITS	$153,518.4	$(111,941.9)	$(8,857.0)	$32,719.5

Notes to Unaudited Pro Forma Condensed Balance Sheet

Dollars in Millions (except per share amounts)

(1) Divestiture Pro Forma Adjustments

(A) This adjustment reflects the deconsolidation of the BOCs and the reversal of consolidating intercompany eliminations.

(B) This adjustment transfers assets and liabilities to and from the BOCs at net book value. The transfers are tax-free under the Internal Revenue Code. Accumulated deferred income tax reserves and unamortized investment credits are transferred along with the associated assets.

This adjustment also reflects the removal of debt by the Company from the BOCs as required by the provisions of the Plan. The amount expected to be removed at divestiture under terms of Reorganization and Divestiture Agreements between the Company and each RHC is approximately $2.6 billion. The Company's debt ratio (debt as a percent of total debt and equity) at the time of divestiture was approximately 40%.

(C) This adjustment reflects the divestiture of the investment in the BOCs.

(D) Under this adjustment, pursuant to a 1967 closing agreement with the IRS, telephone plant transferred to AT&T Information Systems is increased to original cost and the depreciation reserve is increased to what it would have been had the telephone plant been depreciated on the basis of the original cost. The closing agreement requires that when property ceases to be public utility property, the liability for deferred taxes associated with Western Electric profits reverts back to Western Electric. See Accounting Policies section of Historical Financial Statements, "Purchases From Western Electric," and "Telephone Plant."

(E) This adjustment effects the consolidation of Western Electric and Bell Laboratories.

(F) This adjustment eliminates significant intercompany accounts receivable and payable.

(2) Divestiture-Related Extraordinary Charge

See Note (A) to Historical Financial Statements. These amounts differ from the amounts announced initially because of regulatory events and other adjustments.

(3) Contingent Liabilities

See Note (Q) to Historical Financial Statements.

Supplementary Data

Accounting for the Effects of Inflation (Unaudited)

Dollars in Millions (except per share amounts)

High rates of inflation drew increased attention to the need to assess both the impact of inflation on business and the results of management's efforts in coping with it. No consensus has been reached either on the preferability of any one reporting method or on the practical usefulness of the resulting data. The Financial Accounting Standards Board ("FASB"), believing that additional experience should be gained and experimentation undertaken with respect to reporting the effects of inflation, issued Statement of Financial Accounting Standards No. 33 ("Statement No. 33") in 1979 which requires disclosure of supplementary data to reflect the effects of general inflation (constant dollar) and the effects of changes in specific prices (current cost). The data in Tables A and B have been prepared to comply with Statement No. 33; however, the Company believes that it should be used with care because the data neither completely nor accurately portray inflation's effects.

Traditionally, financial statements have been prepared on the basis of historical costs, i.e., the actual number of dollars exchanged at the time each transaction took place. However, it is recognized that general inflation has caused the purchasing power of dollars to decline, the result of which is the presentation of financial statement elements in dollars of varying purchasing power. To eliminate this disparity, such elements may be restated in "constant" dollars, each of which then has equal purchasing power. To reflect the effects of inflation and thus express operating results in dollars of comparable purchasing power, Statement No. 33 requires the Company to show what the FASB characterizes as "income from continuing operations" as if depreciation of plant assets had been based on asset amounts expressed in dollars of constant purchasing power. (This is shown in column (b) of Table A, stated in average 1983 dollars.) This adjustment is derived from the application of the Consumer Price Index for All Urban Consumers ("CPI-U"), a measure of inflation based on changes in the costs to consumers of a wide range of commodities and services. (The 1983 average CPI-U has been estimated based on actual statistics through November 1983.)

Technological improvements, changes in supply and demand, and productivity gains cause the specific prices of goods and services purchased by a particular business to fluctuate differently from price changes that would be caused solely by general inflation. To reflect the effects of such specific price changes on operating results, Statement No. 33 requires that the Company also show "income from continuing operations" as if depreciation of plant assets had been based on the "current cost" of these or comparable assets, rather than on historical cost. (This calculation is shown in column (c) of Table A, stated in average 1983 dollars.) Because current cost data are unique to each company, the current cost of telephone plant has been calculated by applying internally-generated indexes to investments in each of the major telephone plant accounts.

In computing "income from continuing operations," only depreciation expense has been adjusted to show the effects of inflation. Because most other operating expense items are current year transactions, they already are recorded in dollars of approximately current purchasing power.

In accordance with requirements of Statement No. 33, no adjustments have been made to reflect any effects of inflation on provisions for federal income taxes. The effective federal income tax rate (operating federal income taxes divided by the sum of operating federal income taxes and "income from continuing operations") for the historical data in column (a) of Table A would be 33.5%. The rate reflecting adjustments for inflation would be 228.2% for column (b) and 129.4% for column (c) of Table A. While the federal income taxes used in these computations include investment tax credits and tax deferrals relating to accelerated depreciation, the effects of inflation on effective tax rates also would be increased dramatically, even though in lower percentages, if these tax benefits were excluded. These tax benefits were intended by Congress to provide funds for investment in other capital assets in order to increase productivity and employment.

Amounts shown as "net assets at year end" in Table B are the sum of common shareowners' equity, convertible preferred shares, and the common shareowners' equity portion of the ownership interest of others in consolidated subsidiaries as shown in the Historical Financial Statements which are adjusted for general inflation by the difference between telephone plant at historical cost and telephone plant in constant dollars and are adjusted for changes in specific prices by the difference between telephone plant at historical cost and telephone plant at current cost.

It is essential that regulatory authorities allow telephone services to be priced at levels that will preserve the Company's ability to attract the continuing additional amounts of capital necessary to meet the public's demand for telephone services. Such price levels need to provide rates of return which, after giving recognition to the effects of inflation, adequately will compensate purchasers of securities for funds provided for telephone plant construction. This inflation-affected compensa-

tion would acknowledge higher interest rates for debt securities in anticipation that such debt will be repaid in dollars having less purchasing power; it would acknowledge that returns on equity securities must be comparable with returns available on alternative equity investment opportunities. Because of this comparable return requirement for equity securities, any reflection of "constant dollar" or "current cost" depreciation in the returns on equity of non-regulated companies should result in regulatory recognition of the need for increased returns on equity associated with the Company's regulated monopoly telephone operations (which were divested on January 1, 1984) and thus give recognition to similar inflation effects on its depreciation. Accordingly, the Company has no reason to expect that increases in operating revenues for the regulated monopoly telephone operations will not keep pace with the effects of inflation on depreciation; the constant dollar and current cost amounts shown for telephone plant investment in the accompanying schedule reflect this premise. Should regulatory authorities not give recognition to the need for such higher equity returns, then the recoverable amount of the Company's plant associated with regulated monopoly telephone operations when adjusted for inflation's effects, could be reduced. No such reduction is necessary for constant dollar results in 1983 (Table A column (b)); the constant dollar depreciation provided for any 1983 reduction that would have been necessary. The cumulative amount of constant dollar reductions applicable to all years through December 31, 1983, could have reduced "net assets," as defined herein, by as much as $79,276.5. No such reduction is necessary for current cost results in 1983 (Table A column (c)); the current cost depreciation provided for any 1983 reduction that would have been necessary. The cumulative amount of such reduction at December 31, 1983, could have reduced net assets by as much as $74,782.6.

The reader should note the item identified in Tables A and B as "benefits from decline in purchasing power of net amounts owed." During periods of inflation lenders of money experience a loss due to the fact that amounts owed to them will be repaid in dollars having less purchasing power than the dollars originally lent; it is in anticipation of such loss that interest rates are high during inflationary times. Conversely, to the extent that lenders are losing purchasing power, borrowers are benefiting.

In assessing the impact of inflation on business, the Company believes that the benefits from inflation's effects on money that is borrowed should be viewed as an offset to interest expense. The benefit, however, does not provide funds to the Company.

The disclosure called for by Statement No. 33 is misleading by its incorrect inference that the Company ought not to have paid out more in dividends than its inflation-adjusted income from continuing operations. Statement No. 33 is based on the incorrect premise that depreciation expense, rather than being a means of allocating asset costs to accounting periods, provides funds to be set aside and used for the replacement of those assets being depreciated. Statement No. 33 also assumes that the cost of new assets acquired to replace retired assets will equal the original cost of the retired assets adjusted for either inflation or specific price increases; obviously, such is not the case in a high technology industry such as ours. Technological advances hold down price increases for new communications equipment and also increase significantly the productive capacity of both new and existing equipment. As shown in the accompanying Analysis of Construction Program and Cash Utilization (Table C), internally-generated funds, after paying dividends, were sufficient not only to provide all the funds needed for plant replacement, modernization, and customer movement, but also to provide $4,558.0, $6,168.4 and $4,742.2 in 1983, 1982 and 1981, respectively, for financing new telephone growth and other corporate investments.

The reader also should note that the increase in the specific prices of telephone plant was greater than the increase adjusted for the effects of general inflation for 1983 due to the significant decrease in the inflation rate during the year ended December 31, 1983. In prior years (as shown in Table B) the increase in the specific prices of telephone plant actually had been less than the general increase in the rate of inflation which was primarily attributable to "benefits of technological improvements in constructing telephone plant." These technological improvements, combined with the resulting improvements in productivity, were responsible for the Company's success in prior years in keeping the rate of growth in the prices of its services below the rate of growth in the general level of prices.

Statement No. 33 also requires that the data shown in Table B be presented in a five year summary, restated into the average purchasing power of the dollar during 1983. The calculations for these restatements (except market price per common share) have been made by applying the average CPI-U for 1983 to the data for the years 1979 through 1982. The calculations for market price per common share have been made by applying the average CPI-U for 1983 to the data for the years 1979 through 1983. Since the actual market price for 1983 is stated in year end dollars which have a lower purchasing power than the average 1983 dollar, the effect of the calculation for 1983 is to decrease the year end market price per common share from the actual quoted amount. No adjustments have been made to the historical cost information, which is presented for comparison purposes only.

Table A–Supplementary Financial Data Adjusted for the Effects of Inflation and Changing Prices–December 31, 1983

DOLLARS IN MILLIONS	As Reported in the Historical Cost Financial Statements (a)	Adjusted for General Inflation (Constant Dollars) (b)	Adjusted for Changes in Specific Prices (Current Cost) (c)
Operating revenues	$ 69,403.2	$ 69,403.2	$ 69,403.2
Depreciation	9,854.2	17,223.4	16,257.7
Other operating expenses	41,259.7	41,259.7	41,259.7
Operating federal income taxes	2,888.8	2,888.8	2,888.8
Other operating taxes	5,791.1	5,791.1	5,791.1
Other income	(444.4)	(444.4)	(444.4)
Interest expense	4,307.2	4,307.2	4,307.2
	63,656.6	71,025.8	70,060.1
Income (loss) from continuing operations	$ 5,746.6	$ (1,622.6)	$ (656.9)
Benefits from decline in purchasing power of net amounts owed		$ 2,473.5	$ 2,473.5
Increase in specific prices (current cost) of telephone plant held during the year			$ 8,834.5
Effect of increase in general price level (constant dollar)			7,681.9
Excess of increase in specific prices over increase in the general price level			$ 1,152.6
Telephone plant, net of accumulated depreciation	$123,754.2	$204,412.2†	$199,840.0†

†Year end 1983 dollars

Table B–Supplementary Five-Year Comparison of Selected Financial Data

DOLLARS IN MILLIONS (except per share amounts)	1983	1982	1981	1980	1979
Operating revenues in average 1983 dollars	$ 69,403.2	$ 67,163.7	$ 63,607.8	$ 61,249.7	$ 62,326.4
Historical cost information:					
Income from continuing operations	$ 5,746.6	$ 6,992.0	$ 6,822.9	$ 5,967.8	$ 5,654.7
Income from continuing operations per common share[1]	6.00	8.06	8.47	8.04	8.01
Net assets at year end	60,762.4	62,214.4	55,630.7	50,009.0	45,879.0
Historical cost information adjusted for general inflation (average 1983 dollars):					
Income (loss) from continuing operations	$ (1,622.6)	$ 51.7	$ 435.9	$ 1,014.0	$ 2,494.8
Income (loss) from continuing operations per common share[1]	(1.87)	(.11)	.35	1.15	3.33
Net assets at year end	138,998.2	155,640.6	153,287.4	147,573.0	142,747.3
Historical cost information adjusted for changes in specific prices (average 1983 dollars):					
Income (loss) from continuing operations	$ (656.9)	$ 1,462.9	$ 2,323.1	$ 2,266.3	$ 3,075.8
Income (loss) from continuing operations per common share[1]	(.84)	1.55	2.74	2.88	4.17
Difference between the amount by which current cost of telephone plant would have increased if computed by reference to changes in general price levels and increase in current cost of telephone plant	(1,152.6)	(6,879.0)	6,312.9	6,577.4	13,393.8
Net assets at year end	134,504.3	143,879.9	133,056.4	132,521.1	130,998.7
Other Information:					
Benefits from decline in purchasing power of net amounts owed in average 1983 dollars	$ 2,473.5	$ 2,971.6	$ 6,016.3	$ 8,342.1	$ 9,433.4
Cash dividends declared per common share:					
At historical cost	$ 5.85	$ 5.40	$ 5.40	$ 5.00	$ 5.00
In average 1983 dollars	5.85	5.57	5.91	6.05	6.86
Market price per common share at year end:					
At historical cost[2]	$61.50	$59.38	$58.75	$47.88	$52.13
In average 1983 dollars	60.45	60.29	62.28	55.28	67.39
Average CPI-U (1983 estimated)	298.4	289.1	272.4	246.8	217.4

[1]Income from continuing operations per common share is after preferred dividend requirements. [2]Using Composite Tape closing price.

Table C–Analysis of Construction Program and Cash Utilization

Construction program components (approximate):

IN MILLIONS OF HISTORICAL DOLLARS	1983	1982	1981
Plant replacement	$ 960.0	$ 1,150.1	$ 1,099.9
Plant modernization	3,016.6	3,614.1	3,406.6
Customer movement	1,963.6	2,334.9	3,438.6
Growth	7,829.9	9,380.8	9,865.1
	13,770.1	16,479.9	17,810.2
Add interest charged construction	356.8	317.6	287.5
Total construction program	$ 14,126.9	$16,797.5	$18,097.7
Retirements of telephone plant at historical cost	$ 6,859.1	$ 6,161.0	$ 5,744.8

Internally-generated funds available for investments (see page 10):

IN MILLIONS OF HISTORICAL DOLLARS	1983	1982	1981
Funds from operations	$ 17,665.5	$ 20,846.3	$ 17,059.3
Decrease in working capital	(916.7)	(2,372.7)	(41.6)
Decrease (increase) in deferred charges and other-net	(628.1)	(463.5)	71.6
	$ 16,120.7	$ 18,010.1	$ 17,089.3
Less dividends	5,622.5	4,742.6	4,402.0
Funds available for investments	10,498.2	13,267.5	12,687.3
Less amount spent on plant replacement, plant modernization, and customer movement	5,940.2	7,099.1	7,945.1
Funds available for growth and other investments	$ 4,558.0	$ 6,168.4	$ 4,742.2

Market and Dividend Data

The principal market for trading in AT&T common stock is the New York Stock Exchange. The common stock is also listed in the United States on the Philadelphia, Boston, Midwest and Pacific exchanges. As of December 30, 1983, there were 2,960,471 holders of record of this common stock. Market data as obtained from the Composite Tape* and dividend data for the last two fiscal years are listed below. The payment of subsequent dividends by the Company and the RHCs will depend upon the earnings and financial requirements of each company and the other factors. The Company's anticipated May 1, 1984 quarterly dividend is $.30 per share. The Company and the RHCs have announced the plans of their respective Board of Directors as to the anticipated initial post-divestiture quarterly dividend per share to be paid by each company on May 1, 1984. The anticipated May dividends are equivalent to $1.36½ per Company share before divestiture. The preferred shares rank prior to the common shares as to dividends. See Note (J) to Historical Financial Statements.

Calendar Quarter		Market Price High	Market Price Low	Dividend Declared
1982	1st	$60⅞	$54⅛	$1.35
	2nd	56⅞	50	1.35
	3rd	58⅝	49⅞	1.35
	4th	64⅝	56¼	1.35
1983**	1st	$70¼	$59⅝	$1.80
	2nd	69⅝	62⅛	1.35
	3rd	67⅞	60⅛	1.35
	4th	66⅜	60⅛	1.35

*Encompasses trading on the principal U.S. stock exchanges as well as off-board trading.

**A special one-time dividend of $.45 per common share was paid to holders of record on March 31, 1983. This special dividend was not a "dividend increase" but instead was a one-time payment declared by the Company to accommodate a change in the schedule of its regular quarterly dividend payments.

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Retiring from the Board during 1983 were William S. Cashel, Vice Chairman of the Board and Chief Financial Officer, and Edward B. Hanify, Partner, Ropes & Gray.

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